money marketing

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Editor's view

NATALIE HOLT

How can advisers deliver what the FCA can't?

The Treasury has quietly dropped a regulatory bomb on advisers. It is one that will see them burdened with extra responsibility and a greater compliance headache, not to mention significantly higher costs. Just what advisers wanted to hear.

Advice firms may not have been following the twists and turns of the new senior managers regime, and, until now, they didn't have to.

Introduced in the wake of the financial crisis and originally aimed at banks and insurers, the rules are designed to ensure individual accountability when things go wrong at the big firms.

But the Treasury has now announced the regime should be extended to all firms, regardless of size or area of business.

Advice firms will have to check not only whether staff are competent enough to do their job, but also whether they have the integrity to do it. These checks will need to be performed at outset and annually thereafter.

But this is about much more than extra checks. In one fell swoop, the Treasury has shifted the responsibility for ensuring the right people are doing the right jobs from the regulator to firms. On top of that, at an individual level more employees will be on the hook when the FCA finds its rules have been breached.

The Treasury has steamrollered this move without so much as pretending to consult on the reforms. The FCA will consult at some as yet undefined point in the future, but this is purely on the practicalities rather than whether or not to implement.

Of course, all this extra accountability comes at a cost, and as usual it is advice firms footing the bill.

We now have the bizarre situation of firms taking on more regulatory responsibility and being charged for the privilege.

It reminds me of those restaurants where you have a hotplate to cook your own meal and are charged three times the normal bill at the end of it.

The senior managers regime was supposed to be about having a mechanism to go after the Fred Goodwins and Bob Diamonds

In one fell swoop, the Treasury has shifted the responsibility for ensuring the right people are doing the right jobs from the regulator to firms

of this world. It was not about penalising advisers who have already had to jump through all the regulatory hoops put in front of them as part of the RDR.

The FCA has a budget of £479m this year, and has yet to deliver greater accountability.

So how is the average adviser expected to deliver what the regulator couldn't, with considerably less resources?

Natalie Holt is editor of Money Marketing. Follow her on Twitter: @Natalie_Holt_MM

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THIS WEEK'S MUST READS

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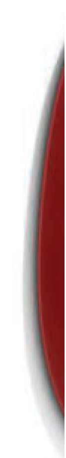


Govt forces advisers to bend to tougher senior manager rules

TESSA NORMAN

Tougher accountability rules for advisers will add "unnecessary" regulatory costs which threaten to thwart efforts to widen access to advice.

In a shock move last week, the Treasury announced the senior managers regime will be extended to all regulated firms at some stage during 2018.

The regime passes responsibility for ensuring staff are fit and proper from the FCA to firms, and makes it easier for the regulator to hold senior managers to account in the event of failings.

Experts warn the changes will add tens of thousands of pounds in compliance costs to each firm and could lead to staff demanding higher salaries.

So how do firms prepare for these changes? And what will they mean for a sector struggling to meet the demand for advice under the cloud of rising regulatory costs?

Out of the blue

Banks are currently preparing for the introduction of the senior managers regime in March 2016 following the Parliamentary Commission for Banking Standards' report on improving standards and culture in the banking sector. Similar rules for insurers also come into force in March.

A wider extension of the rules had been hinted at in the Bank of England's Fair and Effective Markets Review in June but the review said bringing more firms into scope would be subject to consultation.

Law firm RPC regulatory counsel Marcus Bonnell says: "This is a massive change in the way the FCA operates which has come pretty much out of the blue.

"Smaller firms are facing a significant change in the way they are regulated and are going to feel quite daunted."

The Treasury also announced the most controversial aspect of the banks' senior managers regime has been removed.

The so-called "reverse burden of proof" would have required senior managers to prove they had taken all reasonable steps to prevent conduct breaches. Instead, the FCA will have to prove managers failed to do so.

Threesixty Services managing director Phil Young says: "There is something unnerving about the fact the Treasury is moving much faster than the FCA and surpassing the usual consultation processes.

"There comes a point where firms think who is actually driving change and who should I be lobbying?"

Responsibilities map

The FCA is due to consult on how the regime will apply to firms beyond banks and insurers.

There are three main aspects to the rules: statements of responsibilities for senior managers, a new fitness and propriety test for almost all staff, and a new code of conduct for staff.

> **This is a massive change in the way the FCA operates. Smaller firms are facing a significant change in the way they are regulated and are going to feel daunted**

Pinsent Masons senior associate and former FCA lawyer Michael Ruck says: "Senior managers will effectively be grandfathered into the new regime. What is new is they have to provide a 300-word statement of responsibilities to the regulator, and a responsibilities map setting out what each manager is responsible for. In a smaller firm this should be simpler. However, if you have two directors who generally take shared responsibility for the firm, you need to divide up responsibilities in a way both managers are happy with and that leaves no gaps."

Bonnell adds the stakes are high for getting these statements right.

He says: "If anything goes wrong, these statements would be used as a starting point for the regulator to take enforcement action against you as an individual. Firms will want to get them checked by a compliance professional."

Fit and proper

Experts say the biggest challenge for advisers is the ripping up of the approved persons regime, which will be replaced by a certification regime.

This means customer-facing staff are no longer pre-approved by the regulator. Instead, any staff member which could pose a risk to the firm or customers must be certified as fit and proper by the firm both initially and on an annual basis.

It is understood the certification regime will apply more widely than customer-facing staff, effectively to all bar purely administrative roles such as receptionists.

The FCA will be able to take enforcement action against these certified individuals, who must also sign up to a new code of conduct based around treating customers fairly rules. These conduct rules replace the statements of principles which currently apply to approved persons.

It will be down to firms to devise the fitness and propriety tests, which will be checked by the FCA through thematic reviews.

Zurich UK Life principal of government and industry affairs Matthew Connell says: "Firms may already be doing things which they can use to frame a fitness and propriety assessment.

"Those with a regular appraisal process and an internal code of conduct will have a good head-start. These are significant processes which will take time to bed in and to be viewed as more than artificial by staff."

Experts say processes will also need to be in place for breaches of the standards. This should cover in what circumstances the regulator needs to be informed and any appeals process.

Connell says: "There have been discussions among banks about how serious a breach needs to be before it is reported to the regulator.

"Competence is an ongoing thing and small issues can be resolved through training and learning. But firms will have to make those judgement calls."

Under the existing regime, the FCA cannot take action against individuals who are not approved persons but this will change with the introduction of the new senior managers rules.

One issue for advice firms is that paraplanners are not currently pre-approved by the FCA but are likely to fall within scope of the certification regime.

Experts say they could argue for an increase in salary, given their greater regulatory responsibilities under the new regime.

Bonnell says: "The FCA is not going to be prescriptive about which job titles fall under the regime, so firms are going to have to make those decisions and no doubt some will be punished for getting it wrong.

"There are likely to be a lot more people who find themselves certified under this regime with a personal responsibility to the regulator. They may say they have a greater level of personal risk and responsibility and expect to be remunerated ▶

EXPERT VIEW

COLIN WILCOX

Judgement calls will be tough on fit and proper tests

There are three key aspects to this change for advisers to consider: the senior managers regime itself, the certification regime and the conduct rules. Certification presents the biggest challenge. Under the current regime, all customer-facing advisers are approved as CF30s. That system will fall away and it will become the firm's responsibility to undertake an initial and annual fit and proper test.

It will be down to firms to decide what that involves, but it is likely to include criminal checks, careful referencing and questions about an individual's financial position.

Ideally, everyone would get signed off as fit and proper every year but that may not be the case and firms will have to make some challenging judgement calls.

The most difficult scenario is where something happens to an existing member of staff which leads you to question their fitness and propriety.

For instance, last year, the FCA banned a former Blackrock Asset Management managing director for dodging £43,000 in train fares. While his train fares had nothing to do with his work, he had committed fraud which indicates a propensity to do bad things.

A less clear-cut example is an employee who falls into debt. A senior manager will have to work out what has driven that and whether it can be resolved. The firm will need to decide which of these cases should be reported to the regulator.

The conduct rules apply to everyone within the senior managers and certification regime. These are high level and are largely based around the fair treatment of customers.

Given advisers' exposure to the FCA and its work on TCF, advice firms should be well positioned but will still need to show staff have understood and are adhering to the rules.

As the senior managers regime was specifically brought in to control the banks, the rules need to be proportionate and workable for small firms and the FCA's consultation process will be crucial.

Colin Wilcox is advisory director at The Consulting Consortium

accordingly. That is what staff have been arguing in banks."

Ruck adds: "That argument applies all the way up the hierarchy to senior managers as it is going to be clear whose name is in the frame if things go wrong."

Unnecessary costs

In addition to potential salary increases, the changes will heap costs on to firms through management time and compliance services.

Experts say a consultant would typically charge a mid-sized advice firm £15,000 to implement the relevant processes and £4,000-£5,000 for an annual check.

Firms will also need to train staff on the new conduct rules, particularly those who are not approved persons under the current regime.

Bonnell says: "No doubt off-the-shelf training solutions will be available, but a half-hour session and some multiple-choice questions is unlikely to ensure staff truly understand what TCF means.

"The banks have spent millions of pounds preparing for this regime and firms should not underestimate how significant a change it is."

Others argue the changes are evidence of a lack of joined-up thinking, given the Treasury launched the Financial Advice Market Review this month.

The review aims to widen access to advice and is seeking views on barriers to firms providing advice, including regulatory costs.

Apfa director general Chris Hannant says: "The senior managers regime was designed to address specific problems in banking, and makes sense in large organisations where there are multiple and conflicting lines of responsibility.

"But for small advice firms, where is the value? It is the unnecessary regulatory costs that are most exasperating for advisers, and these rules seem stupid in the context of the advice review.

"We already have the sunset clause next year, Mifid II in 2017 and new capital adequacy rules being introduced for advisers. There is only so much you can chuck at an industry and expect it to cope."

Networks

One of many question marks over how the regime will work in practice is how it will be applied to networks. The FCA says this is yet to be decided.

One option would be for the network itself to apportion responsibilities to senior managers, and to certify each appointed representative as fit and proper. Alternatively, the regime could apply to each AR firm as well as the network.

Ruck says: "If the regime applies to each AR, that would negate one of the major reasons for joining a network: the lack of direct regulation.

"But if the networks have to do all the work, might they raise their membership fees to cover the cost? Policymakers will need to try and square access to advice with the Treasury's desire for the regime to be consistent across all firms."

The FCA says it understands the need for the regime to be proportionate for smaller firms.

A spokesman says: "It is worth bearing in mind that in smaller firms lines of responsibility and accountability are already often much clearer than is the case in large, complex organisations.

"Additionally, the senior managers regime has been designed so as to be inherently proportionate, adapting to the size and structure of different firms.

"We understand the need for the extended regime to appropriately reflect the diverse business models operating in the UK market and to continue to be proportionate to the size and complexity of firms."

No doubt off-the-shelf training solutions will be available, but a half-hour session and some multiple-choice questions is unlikely to ensure staff truly understand what TCF means

ADVISER VIEW

Matthew Harris
Director
Dalbeath Financial Planning

I do not welcome these changes. Having FCA approval for IFAs means it is simple for consumers to check via the FCA register that an adviser has regulatory approval to give advice. Under the new rules I cannot see what is stopping unscrupulous firms allowing unqualified staff to give advice direct to consumers.

Q&A

What is happening?
The Treasury has announced the senior managers regime will be extended to all regulated firms in 2018. The regime was previously due to come into force for banks and insurers only in March 2016.

Why is the Treasury doing this?
The Treasury wants the regime to be consistent across all firms and says many firms beyond the banking sector can pose a threat to financial stability.

What is the senior managers regime?
It aims to improve individual accountability, and means senior managers must take responsibility for specific business areas. If there is a rule breach, and the FCA can show the individual failed to take reasonable steps to prevent it, the regulator can take enforcement action against them. The regime also means responsibility for certifying staff as fit and proper will be shifted from the FCA to firms. If the FCA finds the firm has failed to ensure its staff are fit and proper, it can take action against the senior manager responsible.

What happens next?
The FCA will publish a consultation paper on how the regime will apply to firms, but it is not known when.

Will there be different rules for the smallest firms?
All firms will have to comply, regardless of size. The FCA says rules will be proportionate to firms' size and complexity.

Tessa Norman

Torn apart

Ros Altmann tears down key pillars of Steve Webb's reform agenda

MARK SANDS

Pensions minister Baroness Ros Altmann has torn apart two key pillars of her predecessor's reform agenda, raising serious questions about the time wasted by both Steve Webb and Government officials developing the policies.

Last week, Altmann announced the implementation of both pot follows member - a reform designed to prevent vast numbers of stranded pension pots building up as a result of automatic enrolment - and defined ambition had been pushed back to give providers and Government officials breathing space to deliver the existing reform agenda.

But with the Government refusing to commit to a timetable for introducing the changes, and experts criticising the previous administration for neglecting communication of both the state pension changes and auto-enrolment, is Webb's legacy under threat?

Dead in the water

Speaking to *Money Marketing*, Altmann insists the issue of proliferation of small pots has "not been shelved indefinitely".

However, she repeatedly refused to confirm whether or not the reform, or Webb's defined ambition agenda, would be introduced before the 2020 general election.

Pot follows member is dead in the water. Officials at the department never liked the initiative and, with a new minister in office, they have convinced the Government to go back to the drawing board

She says: "It would be unwise to proceed with it all now, and I also believe the freedom and choice reforms fundamentally change the original idea that defined ambition was based on. It is important when things change to take stock and then look again.

"I can assure you these reforms are not shelved indefinitely, and I can also assure you that I know and the Government knows we have to do something about the small pots that are building up and stranded if people move jobs. We do absolutely have to have a system that will help people manage their lifetime savings in one place."

However, a source close to the ▶

Department for Work and Pensions says: "Pot follows member is dead in the water. Officials at the department never liked the initiative and, with a new minister in office, they have pushed back and convinced the Government to go back to the drawing board."

Webb insists his legacy as pensions minister should be judged on the success or failure of auto-enrolment, the single-tier state pension and the freedoms introduced in April this year.

He adds both pot follows member and defined ambition could yet be resurrected once strains on Government and industry resources have eased.

Webb says: "Ros has been very clear that this isn't a policy reversal - she has never said she wants to get rid of pot follows member entirely.

"The capacity of a government department is finite and falling, so they have sat down and set out what they absolutely have to do."

Ambition squashed

Webb was belligerent in his pursuit of defined ambition despite experts dismissing the merits of the policy and questioning whether employers scarred by defined benefit deficits would actually be willing to take on extra pension risk.

Under one of the models of defined ambition, collective defined contribution, members' assets are pooled rather than being retained on an individual basis. When a member retires, their income is then paid from the asset pool, meaning they do not need to buy a retirement income product.

London Business School executive fellow David Pitt-Watson has written several reports on CDC and claims the model can deliver up to 40 per cent higher retirement incomes versus individual DC.

He says: "We have been left with an incomplete pension reform. Quite rightly the Government has said annuities are incredibly expensive and that consumers shouldn't be forced to spend all their money on that.

"But if you abandon CDC how can you expect people to buy an adequate pension in this country? It's really frustrating the Government seems to think they no longer have the bandwidth for it because they need to do it."

Waste

The decision to abandon two of Webb's pet projects has drawn criticism about the DWP's use of resources during the last Parliament.

Hargreaves Lansdown head of pensions research Tom McPhail, who was heavily involved in the pot follows member project, says thousands of DWP hours were spent on the proposals during Webb's tenure.

He says this could stretch to hundreds of thousands of hours when you include time spent by the industry. McPhail says: "I don't know what you'd cost DWP officials' time at, but it won't have been cheap. Imagine if all those resources had been spent developing interactive websites and apps to communicate the state pension reforms? Webb did some good stuff in office but, in the end, he got a bit carried away.

"If he'd spent that last year building robust communications systems for the new state pension instead, we would be in a better place now."

Aviva head of financial research John Lawson agrees: "The DWP has very limited resources, and making sure the state pension works and is communicated well to people is important because that makes about 45 per cent of the income of retired people.

"Auto-enrolment is also vital, given there are still over a million employers to enrol, and we've also got to increase contributions to 8 per cent - that's a big challenge.

"The DWP will have to have its wits about it to keep up with all that."

Alternatives

The sudden disappearance of pot follows member could pave the way for the industry to solve the small pots problem through the creation of a so-called "pensions dashboard".

The idea, long favoured by many in the insurance sector, would allow savers to virtually aggregate their pots in one place without ever having to go through the process of actually transferring their pot from one provider to another.

Lawson says: "Once we have virtual aggregation we can improve the pension transfer system that sits behind it. The customer could drag and drop their pots into one place on their own if they wanted to.

"We need to get transfer times down to single days and third-party administrators are clearly struggling with that, but a virtual aggregator is a more modern evolution of the solution than trying to build a brand new banking infrastructure to transfer money between savers' accounts without them even knowing about it."

ADVISER VIEW

Carl Lamb
Managing director
Almary Green

Whenever anybody new comes on board, they are not necessarily going to continue on the same course, and there is a recognition that the previous government was pushing ahead too quickly with some of these changes. From the beginning I have thought we could have a total disaster on our hands with auto-enrolment if we are not careful, so it is right to draw breath and ask what exactly is it we are trying to achieve.

Nick Bamford
Executive director
Informed Choice

When you are in power you can achieve things, but when you lose out someone else will inevitably come along and change that. Steve Webb had a lot of respect from the profession and some of the things he said still make sense, like the abolition of the lifetime allowance, so I hope that still comes to pass.

COMMENT

TOM SELBY

Has Altmann destroyed Webb's legacy?

Last week, pensions minister Ros Altmann unceremoniously wielded the axe on two reforms pursued vigorously by her predecessor, Steve Webb. Both pot follows member and defined ambition were unpopular with certain sections of the industry from the start.

Providers argued creating a system where pension pots are automatically transferred when a person moves jobs would be costly to implement and could see members lose out if they moved from a low-charging scheme to a high-charging scheme.

Many were also sceptical that employers would have any appetite to take on extra pension risk, despite Webb's protestations that companies were in fact interested in DA. While concerns about PFM were probably driven by the self-interest of companies desperate to hold on to members' cash, the introduction of pension freedoms and possible reforms to tax relief mean the complaints of the industry at the volume of change are increasingly being heard at the heart of Government.

But what of Webb's legacy? I had a brief conversation with him about this while on a train returning from the NAPF conference in Manchester.

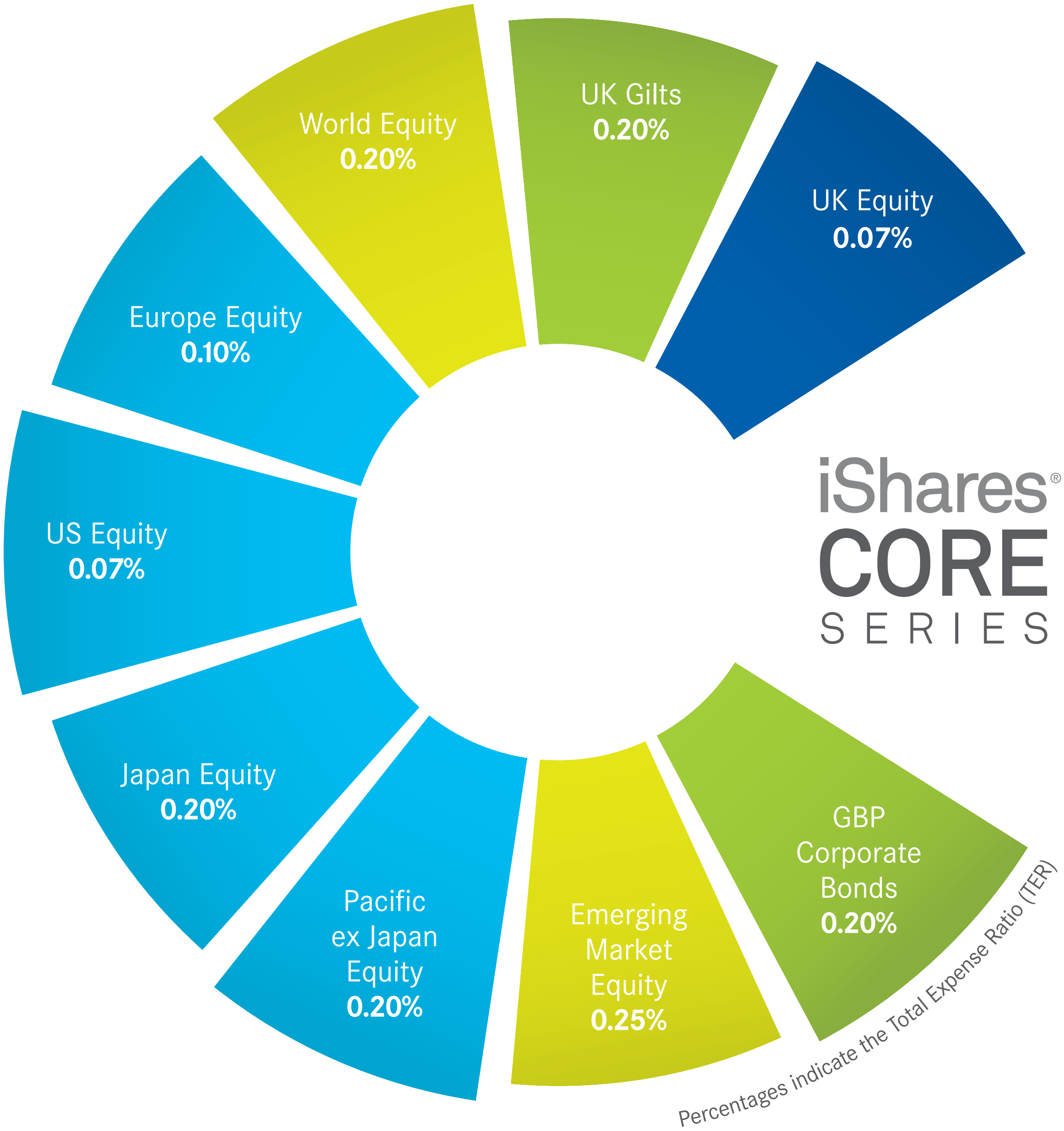
Webb argues the key successes during his five-year term - during which the former Liberal Democrat MP was regularly lauded for his achievements - were introducing the flat-rate state pension, auto-enrolment and the pension freedoms.

However, only the single-tier reform was truly his, and many would say both Webb and his department became unnecessarily sidetracked from the key task of ensuring the policy - alongside auto-enrolment - landed smoothly.

History may judge Webb as a great reforming pensions minister who helped reignite a savings culture in the UK.

But if auto-enrolment falls apart when small and micro firms reach their staging dates and the new state pension is introduced amid a cloud of confusion, the time wasted on two policies which never saw the light of day will not be remembered favourably.

Tom Selby is head of news at Money Marketing



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The week

PENSIONS

Govt rules out axing pension freedoms advice requirement

Pensions minister Baroness Ros Altmann says it would be "ridiculous" to scrap rules that force people with guaranteed benefits to take regulated advice before accessing their savings using the retirement freedoms.

The Government has mandated that savers with safeguarded benefits worth more than £30,000 get regulated advice before taking their pot as cash. This includes both defined benefit pensions and policies with guarantees attached.

However, providers have faced criticism from national newspapers for blocking people from accessing their money, with "expensive" advice costing up to £1,000 listed as one of the barriers facing consumers.

On the back of this, the Personal Finance Society called on the Government to ditch the advice requirement.

But speaking to *Money Marketing*, Altmann says: "If you have got guaranteed benefits, you have got to have some kind of advice.

"It is ridiculous to suggest that people should just have some kind of free-for-all, but then it depends what kind of advice, who needs to give it, how people receive it and when they receive it.

"We certainly haven't considered the idea of just getting rid of the advice requirement; there is no way we would consider that."

PFS chief executive Keith Richards says the trade body has reversed its position following talks with the pensions minister but is looking for concessions in return.

He says: "Government reforms have provided the opportunity to use pension pots to address short-term objectives as much as their original intention to support a standard of living in retirement.

"The risk of short-term gain leading to long-term pain is an obvious unintended consequence that must be addressed.

"The inclusion of guaranteed benefits adds both complexity and risk, which means professional advice is essential. There is, however, an urgent need to amend process, expectations and future treatment of such mandated advice to better meet needs of consumers who might not want advice but have been forced to seek and pay for it."

Tom Selby

REGULATION

FCA targets drawdown in advice due diligence review

The FCA is homing in on income drawdown products as it kicks off its thematic review into advisers' due diligence.

The regulator has sent an information request to a number of advice firms ahead of site visits.

In its 2014/15 business plan, the FCA announced it would be carrying out a thematic review on "effective due diligence for retail investment advice".

FCA: Has sent information request ahead of site visits

Money Marketing later revealed this would include the level of due diligence advisers carry out when choosing a platform.

The review was subsequently delayed but has now been resumed.

The information request, seen by *Money Marketing*, asks for details of advisers' due diligence on: income drawdown products, collective investment schemes, platforms and discretionary investment managers.

The FCA asks firms to include details of any tools or third parties used, the criteria applied to select or exclude certain products and services, and any additional research undertaken on shortlisted providers, products or services.

Threesixty Services managing director Phil Young says: "There has been a lot of noise around the development of new income drawdown products. The FCA wants to ensure advisers fully understand how these products work and their risks.

"Advisers need to demonstrate they have carried out sufficiently broad research on the products available in the market, as well as checking that the product they have selected does what it says on the tin."

Tessa Norman

ADVISERS

Standard Life ‘sailing close to the wind’ over advice letter

Standard Life has been accused of overstepping the line between advice and guidance in a letter that suggests clients switch to a higher-charging fund.

The provider has written to thousands of non-advised customers urging them to review whether its Annuity Purchase fund is still suitable for them. The letter says the fund is designed for customers who are planning to buy an annuity.

It says for those who are yet to decide how to take their pension, Standard Life’s Active Plus II pension fund “is an alternative option”.

The letter says: “The mix of investments in this fund is considered appropriate if you have yet to decide how you’re going to take your retirement income.”

It explains this fund costs 0.11 per cent more than the Annuity Purchase fund.

Former FSA head of retail policy and regulatory consultant David Severn says: “This may well be construed by a reader as advice to take a particular course of action.

“This letter is sailing close to the wind on the FCA’s definition of advice.”

HCF Partnership financial adviser Ian Bennett says: “This letter strays into regulated advice without knowing the facts of the client.”

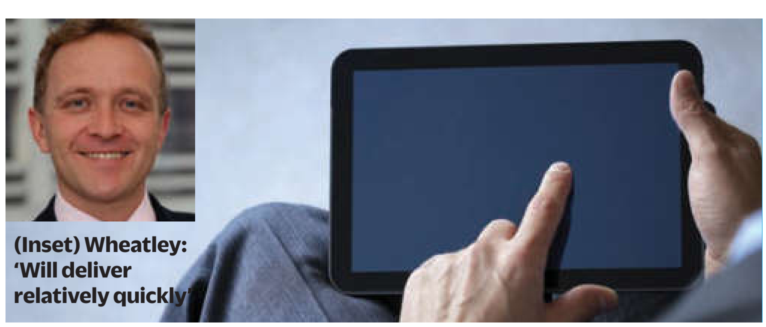
A Standard Life spokeswoman says: “This communication is intended to provide information and prompt customers to consider taking action if they aren’t intending to buy an annuity when they retire.”

Tessa Norman

Standard Life: Suggested clients switch to higher-charging fund

INVESTMENT

Charles Stanley Direct to enable investors to trade via app



(Inset) Wheatley: ‘Will deliver relatively quickly’

Direct-to-consumer platform Charles Stanley Direct is launching a system that will allow investors to trade via its investment news application.

The news service app, which launched last week, offers company and market news, commentary, analysis and fund updates.

It is available to new and existing customers via iPhones and Apple Watches.

Charles Stanley Direct is planning to add several features in the coming months, including trading capability and the inclusion of client account balances.

Managing director Magnus Wheatley says: “Our in-house team is developing the app to include account balance summaries and trading capabilities and we’ll deliver that relatively quickly.

“We already offer Sipps and Isas so there is no reason we can’t deliver that on the app as well.”

More than 60 per cent of Charles Stanley Direct mobile clients access the platform through Apple devices.

Wheatley adds: “The phone and watch apps are an additional service for our D2C clients. This is our first foray into this kind of technology, which has huge ramifications and potential for the wealth management industry.”

Hargreaves Lansdown launched its trading app for iPhone and Android in 2011.

AJ Bell also launched a mobile dealing service, called Sippdeal, in 2013 while Beaufort Securities launched a similar service in April 2014.

Valentina Romeo ▶

The week in numbers

34%

Year-on-year rise in Sipp claims reported by the Financial Ombudsman Service, from 210 in Q3 2014 to 281 in the same quarter this year

10 yrs

Length of Sipp administration deal agreed between Curtis Banks and Zurich

100

Number of Sanlam Wealth Planning employees whose jobs are under threat after the firm placed its Rhyl and Worcester offices under review

£49

Annual cost to members of using the Pensions and Lifetime Savings Association's new automatic enrolment guidance service

£5.3m

Loss reported by Nutmeg in its 2014 annual accounts

£11.3m

Profit recorded by Woodford Investment Management during its first year of trading

£263m

Losses on investments held by Brooks Macdonald in the three months to the end of September

One

Number of advisers on the 15-strong expert panel advising the Treasury and the FCA's Financial Advice Market Review

PENSIONS

Retirement Advantage's tax-free cash stance branded 'illogical'

Retirement income provider Retirement Advantage has been criticised for its "illogical" stance on tax-free cash.

The insurer pays a different annuity rate depending on whether a customer's tax-free cash has been paid by their ceding pension provider or by Retirement Advantage.

Advice firm Plan Money was given two different annuity quotes for a £171,000 pot: £9,443 a year and £9,370 a year.

In a letter to the firm, Retirement Advantage said it applied a wealth factor as part of its underwriting process.

This means it pays a lower annuity rate where it pays out the tax-free cash because it can verify the existence of a larger pension pot and therefore assumes the client will live longer.

Other annuity providers confirmed to *Money Marketing* they do not pay different rates depending on which provider pays the tax-free cash. They do apply a wealth factor, but only to the annuitised pot.

Plan Money director Pete Chadborn says: "Who pays the tax-free cash makes no difference to a client's wealth, so this stance is illogical.

"Retirement Advantage has failed to be upfront with advisers on this. That means advisers could be unwittingly doing a disservice to their clients by getting them a worse rate."

A Retirement Advantage spokesman says: "We apply different mortality assumptions depending on whether customers have already taken their tax-free cash or not, because the two groups have different profiles."

Tessa Norman

INVESTMENT

Nutmeg reports a £5.3m loss

Nutmeg has reported a £5.3m pre-tax loss for 2014, compared to a £3.6m loss for the previous year.

The online discretionary investment manager reported a turnover of £635,381 for the year, up from £103,903 in 2013.

The results say the company may require further cash injections for development and marketing, and to build its customer base and assets under management.

The company says it expects to secure extra funding from shareholders and new investors should this be the case.

Nutmeg chief executive Nick Hungerford says: "We are investing in growth and will continue to do so over the coming years.

"We expect customers to be with us for life so they will be profitable in the long term, but in the first couple of years that is not going to be the case."

The results say Nutmeg's target market remains 35- to 45-year-olds who have invested before but do not want to manage their investments themselves.

The results say: "As the business grows, Nutmeg is also attracting customers who have not invested before and older customers who have additional investment needs.

"The recent addition of a pension product is expected to increase Nutmeg's appeal to older customers."

Tessa Norman

REGULATION

FOS sees spike in Sipp and personal pension complaints

The Financial Ombudsman Service has seen complaints about personal pensions and self-invested personal pensions rise by more than a third.

The FOS's latest quarterly complaints figures, published this week, show it received 458 complaints about personal pensions between July and September. Of these, 27 per cent were upheld. The number of complaints is up 39 per cent compared to the 329 personal pension cases the FOS received last year.

The FOS also received 281 complaints about self-invested personal pensions in Q3, of which 47 per cent were upheld. This is up by 34 per cent compared to Q3 2014, when 210 complaints were received.

The number of complaints about annuities was unchanged year-on-year at 207. Of these, just 18 per cent were upheld.

There were 2,609 complaints about mortgages between July and September, of which 30 per cent were upheld. This is down by 22 per cent from the 3,333 complaints received during the same period in 2014.

Overall the FOS received 85,896 complaints during the quarter, of which 51 per cent were upheld.

Tessa Norman

INVESTMENT

Woodford Investment Management posts £11m profit

Woodford Investment Management made a profit of £11.3m from January 2014 to March 2015, according to the firm's first set of accounts.

Assets under management at the firm reached £12.9bn with the company also reporting a net increase in cash of £7.4m over the year.

Total operating expenses were at £14.7m for the year, mostly due to personnel expenses as well as general and administrative costs.

The asset manager took £27.5m in management fees for the period.

During the past year, the CF Woodford Equity Income fund passed the £7bn barrier, making it the biggest UK equity income fund to date.

Woodford Investment Management chief executive Craig Newman says: "Our aim is to build a fund management company that challenges industry norms and gives investors both value and transparency.

"Our first year's results give us a platform to invest in the resources, people and infrastructure needed to drive that ambition forward."

The fund manager spent £8.4m on staff costs for the year, including salary, pension and other staff costs. The highest-paying member took home £645,601, including profit distribution. The asset manager now has 35 staff.

The firm's flagship fund has returned 19.5 per cent against the FTSE All Share return of 1.1 per cent over the year to March 2015, according to Morningstar.

Valentina Romeo

Quote of the week

'There is only so much you can chuck at an industry and expect it to cope'

Apfa director general Chris Hannant on the regulatory burden of extending the senior managers regime to advisers

ADVISERS

Lewis attacked for calling long-stop a 'red herring'

Advisers brand FCA consumer panel head's remarks on radio 'unhelpful'

TESSA NORMAN

Advisers have attacked FCA Consumer Panel chair Sue Lewis for branding the long-stop a "red herring" in the debate about how to widen access to advice.

Lewis made the remarks on BBC Radio 4's Money Box as she spoke about the Government's Financial Advice Market Review.

The review, formally launched last week, aims to improve access to advice. As part of the review the FCA is consulting on whether to introduce a 15-year limit on claims against advisers.

Asked whether the long-stop could help to address the advice gap, Lewis said: "The long-stop is actually a little bit of a red herring. [The ability to complain] needs to be there because of the long-term nature of some products. There may be other ways of pooling the liability but it needs to be there."

Highclere Financial Services partner Alan Lakey says the comments are "unhelpful".

He says: "There must be a recognition that the financial services industry is a different creature to that of 20 years ago.

"The old chestnut about the long-term nature of products falls apart under scrutiny. First, consumers should take responsibility if they fail to understand or review their various plans. Secondly, many other occupations which deal in long-term advice or services have a 15-year long-stop."

Yellowtail Financial Planning managing director Dennis Hall adds: "Sue Lewis has a vested interest in looking after consumers, but we cannot dismiss this as a red herring.

"The lack of a long-stop is one of a number of issues which impacts on access to advice. It affects succession planning and whether we can get new blood into the profession. Young people will not be willing to have liabilities hanging over them for the rest of their life when that is not the case in any other profession."


Lewis: 'Simplification is the key'

Personal Finance Society chief executive Keith Richards, also speaking on Money Box, said: "Advisers are the only profession which carry unlimited liability for their advice.

"There is no question that the long-stop should be brought back in. The law was changed [from] when lots of 25-year endowments and whole of life policies were sold, so [ending the long-stop] was done for a fair reason but that now needs to change."

Lewis argued that simplified advice or simplified products were the key to improving access to advice.

She said: "The trick we're trying to pull here is to simplify and make advice more accessible and cheaper for consumers with relatively small amounts of money.

"You might look at what I think of as the pharmacy model: you can speak to a pharmacist, get some advice and they can sell you a limited range of products."

THE LONG-STOP: THE STORY SO FAR

1980: Limitation Act imposes time limits within which a party must bring a legal claim, including a 15-year long-stop for negligence claims

2000: Financial Services and Markets Act introduced. Regulators say this overrides time limits of Limitation Act

2007: FSA reviews the case for a long-stop

November 2008: FSA announces it will not introduce a long-stop

March 2014: In its 2014/15 business plan the FCA says it will consider the case for a long stop

July 2014: FCA says talks have stalled as the long-stop may be deemed a constraint on human rights under an EU directive

December 2014: FCA confirms the EU directive would not stand in the way of a long-stop

LONG-STOP OPTIONS

The FCA says it is considering the following options as part of its long-stop consultation:

- Maintain the current regime
- Introduce a long-stop of 15 years or a different time period "recognising the long life of financial services products"
- Introduce varied limitation periods linked to the terms of products
- Strengthen professional indemnity insurance so advisers have sufficient cover to meet long-term claims
- Set up a compensation fund which all advisers contribute to and which would pay out in the event of a justified claim older than 15 years

PENSIONS

Freedoms report 'puts industry at risk of creeping nationalisation'

MPs' accused of 'over-engineering' by suggesting Pension Wise advise on property, tax and debt

MARK SANDS

Advisers and providers warn a parliamentary report into the pension freedoms risks encouraging "over-engineering" and a "creeping nationalisation" of financial services.

Despite citing fears of a lack of transparency around Pension Wise, the Work and Pensions select committee this week recommended expanding the service to include property wealth, benefit entitlements, tax implications, care costs and debts.

MPs also hit out at the Pension Wise website, saying it is "not fit for purpose".

Hargreaves Lansdown head of pension research Tom McPhail says: "I've got some real problems around this creeping nationalisation of the financial services industry, and this idea that people like what Pension Wise does, but it doesn't work very well."

FCA figures show 204,000 people accessed their pensions using the flexibilities between April and June, but just 19,091 took either face-to-face or telephone appointments with the Government's guidance service between April and August.

McPhail says: "There's lots of evidence that we are failing to meet people's needs through Pension Wise, but the answer to that appears to be to levy more money from the pensions industry and to throw it at public services.

"It's very much unproven that the industry can't fill that vacuum.

"Depending on the results of the Financial Advice Market Review and the guidance review alongside that, it's appropriate to push back and ask whether this gap could not be better filled by the industry."

McPhail: 'Industry can fill the gap'

Clearwater Financial Planning managing director Duncan Carter adds that expanding services risks a "nanny state approach", and suggests the Government risks "over-engineering" the freedoms reforms.

He says: "There are already too many different parts at play here, and there's no clear structure. The Government should try to make it more useful instead of complicating it and making it more costly."

Apfa director general Chris Hannant agrees: "We already have three overlapping services in the Money Advice Service, The Pensions Advisory Service and Pension Wise, which in my view is at least one too many.

"So it's important that while help is provided it shouldn't overlap with what is already out there, and especially in the private sector."

The Treasury this month launched a review of the various guidance services available to savers. Policymakers are considering "rationalising" the services offered by the Money Advice Service and Pension Wise to reduce duplication.

Old Mutual Wealth pensions technical specialist Jon Greer says one unintended consequence of expanding Pension Wise would be further confusion over the boundaries between advice and guidance.

He says: "The advice liability is the clearest distinction between the two, but only 18 per cent of people are aware of the protections offered by full advice that are absent from guidance.

"If the Government does further blur the lines by expanding Pension Wise guidance, it must also be accompanied by a very clear explanation that no such protection exists."

However, Radcliffe & Newlands chartered financial planner Mel Kenny argues there remains a role for state-backed guidance programmes.

He says: "The problem with going to see a firm like Hargreaves is that they might offer an hour-long session, but it's really geared towards getting more money on their platform.

"I'm not sure they would be too keen to talk about topics like debt."

THE COMMITTEE'S RECOMMENDATIONS

- Pension Wise should offer more personalised guidance to cover users' broader financial circumstances
- Provider signposting to Pension Wise should be improved via stricter guidelines from the FCA
- The Pension Wise website must be overhauled to include income calculators and more illustrative examples
- The Government should regularly publish updates about the performance of Pension Wise, and establish a research programme to track consumer outcomes
- It should also publish a timetable for development of a pensions dashboard
- The FCA should establish more clearly the distinction between advice and guidance, and the definitions of safeguarded benefits
- There should be a new drive of anti-scam publicity to protect consumers

REGULATION

Advisers question FSCS U-turn on ARM securities bond claims

Lifeboat scheme accused of being 'too eager to widen the envelope on what claims are valid'

TESSA NORMAN

Advisers have questioned the Financial Services Compensation Scheme's U-turn on ARM Asset Backed Securities claims.

Last week the FSCS announced it is reconsidering claims against Rockingham Independent and other firms over advice to invest in ARM bonds.

In February 2013 the lifeboat scheme ruled out compensating those who had invested in the bonds through Rockingham.

ARM issued bonds based on life settlement policies which were sold to investors in the UK and Europe without the appropriate permissions.

The UK distributor of ARM products was Catalyst Investment Group, which sold the bonds through IFAs.

Out of the 2,000 UK customers who invested a total of £75m into ARM, at least 200 sales were advised by Rockingham.

As ARM is not authorised by the FCA, investors are not covered by the FSCS, but the scheme can still consider claims against advisers that are regulated in the UK.

The FSCS said in 2013 that while Rockingham may have given poor investment advice, this did not cause the losses.

It said the losses were caused by the decision of the Luxembourg regulator to reject ARM's application for authorisation, and therefore claims could only be made against advisers "under very limited circumstances".

But the lifeboat scheme says it has received new evidence from claimants and other third parties.

It has identified 70 claims where there is evidence the adviser failed to act on information it held at relevant times about the authorisation status of ARM.

The FSCS says: "In light of this evidence, we believe some ARM investors can now make successful claims against failed financial advisers if negligent advice can be proven."

Page Russell director Tim Page says: "Just when advisers thought we could put the ARM debacle to bed, it feels like it is never going to end. I would question the nature of this evidence and whether there should be a cut-off point after which claims cannot be looked at again.

"The fact the FSCS is compensating consumers using other people's money means they are too eager to widen the envelope on what claims are valid."

Aurora Financial Planning chartered financial planner Aj Somal says: "This is further evidence of the open-ended nature of advisers' liabilities. If the evidence is compelling, then it is understandable for the FSCS to look at the claims again, but I do not understand why it has taken so long for this additional information to come to light.

"If this leads to an increase in FSCS levies it will put firms' finances under further pressure."

The FSCS will write to all potential claimants to inform them of the decision, while those who remain unaffected will also be told there is insufficient evidence to support their claim. Claimants who have already been compensated up to the FSCS's investment limit of £50,000 from a successful claim against Catalyst will not have their cases reassessed. The FSCS has already paid out compensation for 3,700 claims against Catalyst for its role in promoting ARM bonds.

ROCKINGHAM/ARM TIMELINE

September 2011: FSA fines Rockingham £35,000 and imposes partial bans on its directors over sales of ARM bonds and unregulated collective investment schemes

March 2012: Rockingham is placed into liquidation

August 2012: The FSCS says it is investigating whether it should compensate Rockingham clients

November 2012: Rockingham is declared in default

February 2013: The FSCS rules out compensation for Rockingham ARM investors

October 2013: The FCA censures Catalyst for misleading investors when promoting bonds issued by ARM

November 2013: The compensation costs relating to Catalyst trigger a £30m interim FSCS levy on investment advisers for 2013/14, which is later delayed until 2014/15

October 2015: The FSCS says it will reconsider a number of claims from ARM investors against Rockingham after new evidence comes to light

ADVICE

Online advisers battle to pull in higher-net-worth clients

Firms plan services to attract HNW clients as average investment hovers below £20,000

TESSA NORMAN

Online advice providers are grappling with how to attract and retain high-net-worth clients.

Average investment sizes with online advice services are at low levels. Money on Toast says its average investment is £12,000, while Wealth Horizon's is £17,000.

Money on Toast recently revealed plans for a new service targeted at people with more than £250,000 to invest that will offer a combination of online advice and virtual meetings with advisers.

Investment platform Nutmeg has also announced plans to enter the advice market.

Some experts say online services will gradually attract more high net worth customers as clients get used to the technology and the process becomes more sophisticated. But others caution firms risk losing clients to face-to-face advice services as their clients' wealth increases.

Investment Quorum chief executive Lee Robertson says: "It appears in the UK that very modest funds are being invested through online advice.

"Processing lots of clients with tiny pots is challenging administratively.

It is logical that investors are putting in a little bit of their money and seeing how they find it

At the same time, clients with larger assets have more complex needs and it is difficult to deliver advice to them cheaply and cleanly online.

"The online platforms seem to be recognising that, with Nutmeg already trying to build an advice arm having originally thought they could do it all without advice."

EY senior adviser Malcolm Kerr adds: "As clients' assets increase and life gets more complicated, they want to have conversations with advisers. I'm sure businesses like Nutmeg are thinking of ways to avoid losing clients to traditional advisers as they amass greater wealth."

Finance & Technology Research Centre director Ian McKenna says it is early days for online advice propositions in the UK. "It is entirely logical that initial investors are putting in a little bit of their money and seeing how they find it.

"Over time, the sophistication of these systems and what they can do will increase, and as a result so will the likelihood of attracting clients with larger investment portfolios. In the US there are some examples of online advice firms attracting quite healthy average investment sizes."

Online pension adviser Wealth Wizards, for instance, says it is looking at developing services targeted at more complex areas of advice, with part of the process automated.

Online advice firms argue clients of all wealth levels want choice in the way they access advice.

Wealth Horizon chief executive Chris Williams says: "We have a wide range of portfolio sizes and have already seen clients start with a smaller investment and top it up.

"I'm not a great fan of segmenting clients by their wallet size. Our service is for clients with fairly straightforward needs and it works just as well for someone investing £200,000 as for someone investing £1,000.

"We have a conversation with almost every single customer, and where we don't offer the service they need we will refer them elsewhere."

Money on Toast managing partner Charlie Nicholls says: "The reason our average investment size is £12,000 is mostly because our clients are using the online service for their Isa investments, not because this is all the money they have.

"Many have large holdings elsewhere and this is why we are launching our HNW service, so clients can use robo-services in some areas of their finances, and a combination of robo-services and virtual appointments in others."

Nutmeg chief executive Nick Hungerford adds: "Wealthy investors are much more aware of the impact of costs on performance over the long term. The requirement for an efficient investment service at a fair price spans all wealth brackets."

PENSIONS

Altmann to simplify advice rules for GAR pension savers seeking to cash in

Consultation plan to end confusion over when those wanting to access their funds must take advice

TOM SELBY

The Government is to address confusion over when people with guaranteed annuity rates who want to access their pension pots should have to take advice.

Last week, pensions minister Ros Altmann announced a consultation to clarify the issue for providers and customers.

Under rules introduced after the introduction of the pension freedoms in April, savers with safeguarded benefits worth more than £30,000 are required to take regulated advice before taking their pot as cash. This includes those with GARs attached to their policies.

However, in June *Money Marketing* revealed widespread confusion among providers about how GARs should be valued when assessing whether or not a customer is required to take advice.

Addressing the National Association of Pension Funds conference in Manchester last week, Baroness Altmann said: "I am going to be launching a consultation in the autumn for simplifying the valuation of GARs to clarify for providers and customers who it is that needs to take financial advice.

"We will also be gathering evidence on what is happening to people overseas who might be required to take advice."

Altmann also said the Government "couldn't be complacent" about the success of automatic enrolment as almost two million small firms had yet to reach their staging date.

However, she played down the prospect of raising the minimum contribution level during the current parliament.

When the reforms are fully rolled out in 2018 the minimum employer contribution will be 3 per cent, with employees putting in 4 per cent.

Altmann: 'No complacency'

Altmann said: "We all know there is a need to increase contribution rates because the rates right now are inadequate for providing a decent amount of pension.

"However, we have just started on this process of getting employers in. More than 95 per cent haven't even started yet.

"If we start talking about huge increases in contributions before they get comfortable with the current programme, then we would be shooting ourselves in the foot."

Separately at the conference, The Pensions Regulator chief executive Lesley Titcomb appeared to set herself at odds with the FCA over the imposition of a £10,000 pot limit for retirement risk warnings.

This month the regulator announced a relaxation of the new "second line of defence" rules. As a result, contract-based pension providers will have to give the warnings only to customers with pots worth more than £10,000 or if policies include safeguarded benefits.

Before, FCA-regulated providers had to deliver warnings to every customer who wanted to access their money using the pension freedoms.

TPR has not proposed a similar limit for the trust-based side of the market, however. Titcomb told delegates: "Any sort of cap is always going to be problematic.

"We know when the freedoms were first launched the biggest eye-opener was about tax, and a lot of people were not aware of the tax implications of taking their whole pot."

The Government has previously faced calls to merge the FCA, which regulates contract-based pension schemes, with TPR, which polices trust-based schemes.

But Titcomb warned: "People would be deluding themselves if they think crashing the two regulators together would solve the problem [of different rules applying to trust and contract-based schemes].

"You would still be operating under different legislative frameworks and with different regulatory toolkits. It would be expensive and take a lot of senior management head time, and to be frank I'd rather concentrate on other things at the moment."

ADVISER VIEW

Martin Bamford
Managing director
Informed Choice

It is really important for the Government to clarify and simplify these rules. As things stand, there is a risk some of those with GARs will lose these valuable benefits because the requirement to take advice is not being fairly applied.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POLITICS

MPs support call for FCA fee freeze to boost access to advice

Cross-party backing for Labour MP Alan Meale's proposal to hold fees for two years

MARK SANDS

MPs across party lines have backed calls for a two-year FCA fee freeze in a bid to improve access to advice.

In an early day motion filed last week, Labour MP Alan Meale argued any further increases in regulatory costs would impair access to affordable advice in the aftermath of the introduction of the pension freedoms.

The motion states: "[This house] calls on the Government to take steps towards demands for a real-term freeze in FCA regulatory fees for a minimum of two years to ensure investors are better able to acquire access to professional financial advice."

The motion was immediately backed by Conservative MP Peter Bottomley and Northern Ireland's SDLP MP Mark Durkan, and has since also been signed by the DUP's Jim Shannon and the SDLP's Margaret Ritchie.

Pensions all-party parliamentary group chairman and Conservative MP Richard Graham says many MPs have been contacted by advisers to complain about the cost of regulation.

He says: "I'm very sympathetic to that and I have also written letters to Treasury economic secretary Harriet Baldwin to encourage her to exercise what influence she can on the FCA.

"A cursory glance at the level of fees shows a pretty hefty increase over the last few years.

"Situations like Libor do demand closer scrutiny from the FCA, but that doesn't and shouldn't give them carte blanche to carry on increasing levies way above inflation. It's time for the FCA to consider some reforms very closely."

Treasury select committee member and Conservative MP Mark Garnier says his primary worry is "huge and unpredictable" FSCS levies.

He says: "Clearly all costs are passed on to the consumer in the end, so I am not completely unsympathetic, and it is worth bearing in mind that fines to banks have been diverted to charities. That's a nice thing to do, but the ultimate cost does come from the consumer."

The total levied by the FCA on advisers who do not hold client money increased by 10 per cent for 2015/16, climbing from £68m to £74.9m.

The minimum fee also climbed for the first time in four years from £1,000 to £1,084.

But Personal Finance Society chief executive Keith Richards says it is FSCS fees that are more concerning, with some firms seeing their FSCS costs rise three-fold this year.

He says: "The FSCS levies are far less predictable and have really caused an outcry this year."

ADVISER VIEWS

AJ Somal
Chartered financial planner
Aurora Financial Planning

Innovative ideas like this are always encouraging and suggestions to minimise the burdens for advisers are definitely helpful. I would also like to see some ideas to review the funding of the FSCS, as well as ensuring professional indemnity cover is affordable.

Matthew Harris
Director
Dalbeath Financial Planning

There are obviously several levels of fees which advisers have to pay. With the FSCS we understand that there will be a level of flux based on how many claims there are, but the FCA levies have been going up very sharply as well. While I am not sure a freeze is the answer, there needs to be more certainty over what to expect in future.

Investment insight

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HUGH YOUNG

India must speed up reform

The country's prime minister Narendra Modi needs to address six key areas to get India moving

On a trip to the US last month, India's Prime Minister, Narendra Modi, claimed: "The 21st century belongs to India." The prophecy was bold and emphatic. The speech was a triumph among the largely Indian American crowd. But it is events at home that will determine whether Modi's prediction becomes reality. Here are six key areas he needs to address to get India moving:

1: Keep going with Make In India

Modi's Make In India campaign is one of his flagship policies designed to boost manufacturing and investment, and create new jobs. Currently, manufacturing makes up only 15 per cent of GDP in India (compared with China's 32 per cent). The aim is to increase that to 25 per cent. Part of the campaign is Digital India - Modi's plan to expand India's digital infrastructure and improve internet connectivity, particularly in rural areas.

The results so far have been positive. Foreign direct investment in India has risen by 27.3 per cent in the year to August and industrial production is rising steadily. Notably, Foxconn, Taiwan's contract manufacturer, announced plans to invest $5bn in a plant in Maharashtra state. Digital India has also been a success story, with internet access and smartphone subscriptions expanding rapidly.

2: Improve ease of doing business

The government has a detailed road map for improving the ease of doing business and some states, particularly Gujarat, Andhra Pradesh and Madhya Pradesh, have made good progress. Some have shifted the provision of many government services and licences online and provided a single window system for setting up a business. This will simplify previously tedious processes and should result in substantial productivity gains.

India now needs to formalise a clear bankruptcy code to speed up the pace of liquidation in stress cases. Modi's proposed laws will govern businesses formation, contract enforcement, debt repayment and bankruptcy. These reforms are urgently needed and should, at least in theory, face little political resistance.

3: Push through LAB reform

The 2013 Land Acquisition Bill required consent from affected populations before the government

If India is not able to join the TPP, then it could lose out, as other countries will benefit from these expanded multilateral free trade areas

could acquire their land. This made acquiring land for building factories, roads and other infrastructure very difficult. Modi has tried to push through amendments to the existing law, but continuing opposition in the upper house of parliament has left a long-term solution out of reach.

One way forward may be through state legislation. Rather than wait for central government approval, 10 state governments are looking to implement their own land laws consistent with the 2015 amendments to the original Bill. These states constitute 47 per cent of India's GDP, 40 per cent of the population and 48 per cent of the land area. In the absence of land reform at the state level, this may be a way forward.

4: Reform the banking sector

While India's nominal GDP growth is on the rise, credit growth has been on a downward trend since 2011. Poorly capitalised public sector banks with a high proportion of non-performing loans explain much of the decline in lending. Infrastructure investment has been curtailed as a result. The Reserve Bank of India has introduced some reforms, including those ensuring banks' capital adequacy and sufficient asset quality, but the government will need to do more. Recapitalising the banks and improving their governance structures is a start.

5: Improve trade links

India is not a participant in the Trans-Pacific Partnership. And because it is not a member of the Asia-Pacific Economic Council it would also not be involved with the potential Free Trade Area of the Asia Pacific. If India is not able to join the TPP, then it could lose out, as other countries will benefit from these expanded multilateral free trade areas. If India wants to be competitive, more progress on these trade agreements will be required.

6: Implement a uniform tax

India has many states, each with its own tax code. Modi's proposed goods and sales tax will mean producers pay one uniform national tax rather than several layers. The benefits are better tax compliance and a broader tax base. Unfortunately, progress has been slow and Congress's support of the Bill has been lacking. However, we do not view this as a major concern yet as other reforms, including the bankruptcy code and land reform, are more important to India's development.

Modi has a state visit to the UK next month, with a planned talk at London's 70,000-capacity Wembley Stadium sold out. His popularity remains high at home but there is also a growing perception among the public and investors that the government needs to make progress on reforms. While Modi has impressed with rousing rhetoric abroad, his actions at home will determine his lasting legacy.

Hugh Young is managing director of Aberdeen Asset Management Asia

Retirement insight

ANDREW TULLY

Freedom of choice

Firm and decisive action needs to be taken by the FCA to encourage consumers to shop around for the best pension deals

With the publication of its CP15/30 consultation paper earlier this month, the FCA added to the seemingly never-ending legislative and regulatory developments to pensions. While the paper purports to deal with the aftermath of the pension freedom changes, in reality it covers a wide range of topics, including design and distribution of products, projections and the second line of defence. The irony that a paper dealing with improving communications with customers is 139 pages long and makes for fairly tortuous reading is perhaps best glossed over.

The consultation considers ways to enable customers to make informed decisions and encourage them to explore the full range of options when they reach retirement, including shopping around on the open market. While clearly not a new concept, it is worrying - and frankly ridiculous - that only about 45 per cent of people currently shop around for an annuity. The comparable figure for drawdown is marginally higher at 55 per cent but the overall point is clear: too many customers do not shop around for the best deal, potentially leading to them getting an inferior outcome.

These are scandalously poor figures and require firm and decisive action from the regulator. Much more firm and decisive action, I would suggest, than this consultation proposes. In 2016, requirements may be introduced to help people compare annuity income from different providers, to replace wake-up packs and to supersede the Association of British Insurers Code. While this will hopefully help more people get a better result, it seems to be tinkering around the edges, rather than making any fundamental change to dramatically improve customer outcomes.

The ABI Code prevented members from sending annuity application forms with wake-up packs unless specifically requested by the customer. The FCA proposes incorporating this into its rules and extending it to cover any retirement income solution, such as drawdown or uncrystallised funds pension lump sums, which is a positive step. In a similar vein, where illustrations are not required but a provider wants to produce these, the FCA proposes an illustration is provided for each of the retirement income

The overall point is clear: too many customers do not shop around for the best deal, potentially leading to them getting an inferior outcome

options. However, rather than simplify matters, this could result in a customer receiving a vast quantity of paperwork, which surely is not conducive to good decision making.

The consultation also includes a number of measures relating to the new pension freedoms. This greater choice means people have unlimited access to their pension pot from age 55, which obviously increases the risk it may not last their remaining lifespan. The consultation recognises this and suggests providers should demonstrate to customers the sustainability of their withdrawals.

This is a key aspect and it is important customers are told simply and clearly how long their withdrawals may last. For example, showing a customer funds may run out at a certain age and they have a very high likelihood of being alive at that date may make them pause and consider whether the action they have chosen is appropriate. The FCA needs to make sure any communication in this area is very simple for customers to understand, unlike the hugely complex, and largely meaningless, drawdown critical yield calculations.

Elsewhere, the FCA wants to treat

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The FCA believes firms should not be required to ask the customer questions in order to identify potential risks where funds are below £10,000

the new option of UFPLS similarly to income drawdown. As both allow customers to achieve the same, or similar, outcomes, that is a sensible step. There are also proposed amendments to the second line of defence measures, which were brought in last March and require retirement risk warnings to be given to customers. The FCA believes firms should not be required to ask the customer questions in order to identify potential risks where funds are below £10,000 and there are no safeguarded benefits.

This is only a snippet of the changes proposed by the FCA. For those suffering from insomnia, a read of the full document will easily provide a cure. Despite that, there is a number of important issues that should not be overlooked. In particular, anyone who wants to influence the scope of the Retirement Outcomes Review, which will focus on how the reforms have affected the market and the outcomes people are getting, needs to respond by the end of the month. Given the lack of shopping around, this is a crucial area where the FCA needs to act strongly and decisively.

Andrew Tully is pensions technical director at Retirement Advantage

ANALYSIS

Hambidge boost for UK and Asian equities

Premier multi-assets fund director cuts Latin America holdings but is happy to wait for emerging market recovery to take hold

VALENTINA ROMEO

Premier Asset Management director of multi-asset funds David Hambidge has boosted exposure to UK and Asian equities despite the recent turmoil in China.

Hambidge, who has managed the £686m Multi-Asset Distribution fund since 1999, says recent stockmarket falls are "long overdue" and the way he positioned his fund was "waiting for a correction".

Hambidge and his multi-asset team have been underweight equities and bonds and overweight UK commercial property for the past two years.

He says: "When we saw the downturn of the market during the summer we took some resources out of UK commercial properties and recycled that into UK and Asian equities as well as convertibles."

UK commercial property represented 20 per cent of the fund at the start of the year but that figure has fallen to 15.5 per cent.

Hambidge says: "We've always been very positive on UK equities, especially the UK income sector, as it offers a very reliable income stream, especially through smaller companies which have performed extremely well recently."

UK equities make the largest portion of the fund at 30.9 per cent.

Hambidge has also increased the Asian equity allocation of the fund despite the China market crisis, and reassures investors the fund's exposure to Asia is not all about the troubled powerhouse.

The fund covers the region through the Schroder Asian Income fund, which represents 2.2 per cent of holdings.

Hambidge: Favours active managers

He says: "We bought into the overall Asia story, not just China. Asian companies' dividends are relatively underpinned and that suits us extremely well.

"China is in transition and that is normally quite painful. You'd never expect that to go smoothly."

Hambidge has also cut the fund's Latin America exposure as he had made losses of 40 per cent in the past three years.

However, on emerging markets, which make up 3.9 per cent of the fund through the Charlemagne Emerging Market Dividend fund, Hambidge is "happy to be patient" and wait for recovery to take hold in the region.

He says: "The last six months have been tough, but that's inevitable.

"Over the downturn in the summer we have lost less than our peers and in the second quarter of this year we had a very small positive return."

The fund has had returns of -3.02 per cent over the last six months against the Mixed Investment 20%-60% Shares sector return of -5.80 per cent, according to FE.

However, Hambidge says the fund remains "unaffected" by short-term volatility.

The fund now yields at around 4 per cent and although the team is looking to grow that yield over time, the main objective is to maintain growth and "give back a consistent income stream".

Hambidge says: "Some people don't understand the concept of income. If income is your thing - and the market now is very much an income market - it is really important to understand the difference between the volatility of an income stream and volatility of the underlying capital base.

"For example, we think cash is a very volatile asset class because the income stream delivered is all over the place."

Currently the fund uses cash as a "long strategic asset", representing 1.8 per cent of the fund.

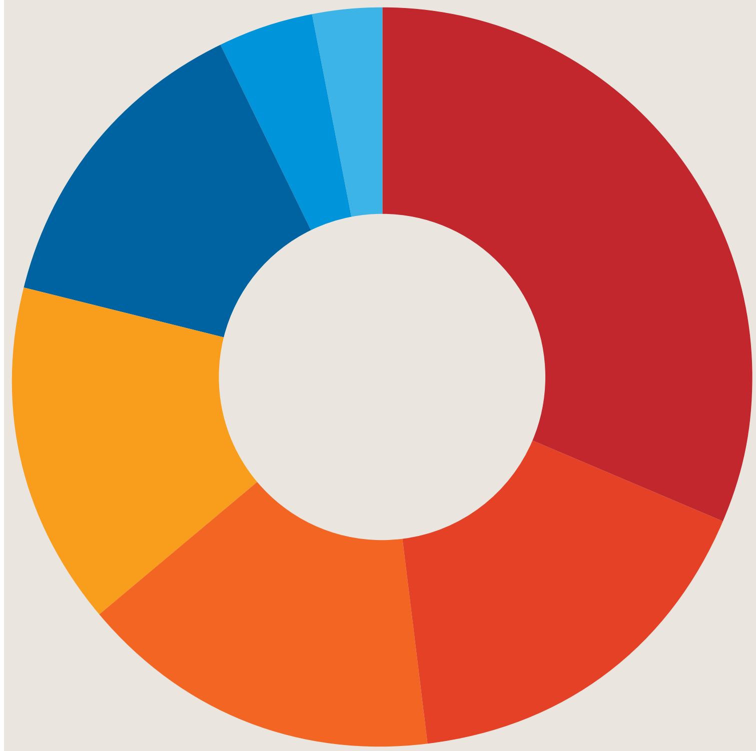
Hambidge will continue to focus on the income stream of the fund but admits the future of markets looks gloomy.

He says: "Although quantitative easing has been the main contributor for asset returns so far, it is going to be quite tough in the future. We are in a low interest rate environment with sluggish growth and it is going to be more difficult to make money."

Hambidge says the key to maintaining a strong level of income is to bet on active management rather than passive as the performance of passive managers in recent months has been disappointing.

He says: "It is not going to be easy but stick with good active managers. The more the market moves into passive, the better the opportunities for active management."

PREMIER MULTI-ASSET DISTRIBUTION FUND



ALLOCATION BY RISK CATEGORY

UK Equity	30.9
Corporate Bonds	16.6
Property	15.5
International Equities	14.8
Bonds	13.5
Alternative	4.1
Other Equity	3.0

SOURCE: PREMIER ASSET MANAGEMENT

MY THREE BIG CALLS

NICK SAMOUILHAN

Be ready to seize the moment

High yield

In a world where growth, inflation and interest rates are low, high yield is a preferred pick. It is hard to argue against a yield of around 6 per cent if nothing changes and, in the event of a rally, the added spice of capital growth from spread compression.

We already have a significant allocation to high yield that might increase further at the expense of equities. We think stocks are constrained by toppy valuations and headwinds including interest rate lift-off in the US and UK. Even if high yield endures another correction, we think such an event would also occur in stockmarkets.

With core government bonds looking expensive on a historical basis, high yield also offers more potential for upside than other areas of fixed income. High yield prices have come off the highs of a few months ago, making the asset class a compelling case for good returns going forward.

Emerging market debt

EMD is a question of timing. While 2014 was all about having little or no exposure to EMD and commodities, the opposite will be true at some future point. We are lining up allocations to EMD in anticipation of the turn so that when we have a conviction we are ready to invest. Many local currencies offer over 10 per cent yield, which is attractive compared to anything else out there.

Our timing depends on how the Federal Reserve handles the next tightening cycle. Markets overreacted to the tapering announcement of 2013, pricing in a return to normal interest rates alongside tapering. This time, we think the Fed will manage expectations more carefully, laying out in detail the gradient and pace of the path to normalisation.

Japan and eurozone equities

Our big calls on equities are the eurozone and Japan, driven by lower expectations as a result of monetary policy divergence between the major central banks.

It makes sense to view the global equities market in three slices. Expectations are high in the US and UK because the economic picture is relatively clear and positive. But much of the upside is already priced in and headwinds are coming as both countries prepare to lift interest rates. There is much to like about the economics of the US and UK but their respective stockmarkets are far less attractive.

In contrast, growth is stuttering in Japan and the eurozone, making it far easier for stocks to surprise on the upside. Debate is focused on the predicted extent and timing of quantitative easing, which is positive for equity markets.

Emerging market equities are still incredibly cheap but we do not think now is the right time to invest, given the turbulence that surrounds these countries.

Nick Samouilhan is multi-asset portfolio manager at Aviva Investors

ANALYSIS

FCA sets sights on mortgage competition

Regulator wants to explore lenders' 'complex relationships and activities' with third-party firms

LEAH MILNER

Mortgage rates are still at rock-bottom lows, but amid growing speculation as to when borrowing costs will eventually rise, the regulator has turned its attention to the effectiveness of competition in the market.

The FCA has called for industry feedback on barriers to competition, after first signalling the topic was on the agenda in March when it published its business plan. After the responses have been collated it will launch a formal market study between January and March 2016, which will cover both regulated and unregulated loans, equity release, buy-to-let, shared ownership, second charge and bridging loans.

The regulator says it particularly wants to explore the "complex relationships and activities" with third-party firms, which it says are intrinsically linked to some lenders' funding models. Some of these relationships fall outside its traditional regulatory perimeter and include the use of third-party administrators, packagers and surveyors.

The FCA says it will be looking at "how these activities or relationships might affect competition, for instance by affecting entry, expansion, and/or the ability of consumers to make effective mortgage choices".

Under the scope of the review, it lists businesses within the mortgage supply chain such as lenders, price comparison websites, brokers, sourcing systems and funding lines, as well as valuers and estate agents.

The data does not immediately suggest a problem with mortgage competition. In fact, it shows a steady improvement. Figures from moneyfacts.co.uk show the number of residential mortgage products has increased by 38 per cent over the past year from 3,559 in October 2014 to 4,896 this month. The number of products at 60 per cent, 75 per cent and 95 per cent loan-to-value have all increased over the same period. Average two-year fixed rates have fallen from 3.51 per cent a year ago to 2.76 per cent today, while five-year fixed rates have dropped from 4.08 per cent to 3.32 per cent.

The client should get absolute freedom of choice for the largest investment of their lifetime

On the face of it, a picture of increasing consumer choice and falling costs hardly implies the need for a competition inquiry. However, given the number of commercial arrangements at play between the different parties in the mortgage process, it is understandable the regulator wants to subject these to scrutiny. On top of this the mortgage market is systemically important, so any dysfunction can have implications for the wider economy.

Cicero executive chairman Iain Anderson says: "Parliament gave the FCA new competition powers when it set up the new regulator and this is a logical move as part of that journey. Competition in the mortgage market - and the lending environment generally - is a key component of both conduct and macro stability. So both regulator and the Treasury view this work as a key test of their powers."

Following the implementation of the Mortgage Market Review in 2014, Building Societies Association head of mortgage policy Paul Broadhead says it is right for the FCA to consider whether some areas have been adversely affected by the new rules. He says: "There have been headline-grabbing stories about borrowers shut out of the mortgage market ever since the MMR was first introduced, and addressing any genuine barriers to competition needs to be a priority."

The review provides an opportunity to consider the impact of both conduct and prudential rules and how they work together.

Some argue there are issues in the market that warrant closer inspection. Prolific Mortgages managing director Lea Karasavvas says: "One of my biggest bones of contention is the pressure that some agents place on buyers to use in-house mortgage brokers, especially where those brokers are not operating from a whole-of-market panel and some major lenders are missing.

"The client should get absolute freedom of choice for the largest investment of their lifetime and to hold them to ransom is something I have long contested."

Karasavvas believes similar prac-

Breaking news and views

Latest mortgage market news, and read what others are saying about it @moneymarketing.co.uk

tices are at play when buyers are pushed by various parties in the mortgage and purchase process to use affiliated solicitors and valuers.

He says: "The purchaser should be given total independence in all of these areas, so they know the final decision around the valuation, the legal representation, and ultimately the lender of choice is not made by a severe dilution of options.

"I hope the review addresses the role of lender valuer panels and ways in which this could be made fairer to the consumer. Valuations can dictate not only the consumer's ability to purchase or remortgage, but also the rate available to them, as LTV is a key driver of cost.

"The valuer's word is gospel, and far too often we are told this cannot be appealed, even when you have a stack of comparable properties and other valuers telling you otherwise."

The review will benefit consumers and hopefully break the shackles long held over borrowers

He is optimistic about the impact of the FCA's work. "In my eyes the review will undoubtedly benefit the consumer and will hopefully break the shackles that many of these parties have long held over borrowers."

John Charcol senior technical manager Ray Boulger also believes there are key areas of market dysfunction the regulator should have in its sights, such as the difficulty of getting mortgages that extend beyond the traditional retirement age. But his main concern is the clash between conduct regulation, which seeks to improve consumer choice, and prudential regulation, which often leads to choices being limited as capital requirements and other restrictions make certain areas of business unviable for lenders.

He says: "The FCA's conduct regulations are often in conflict with the objectives of the Prudential Regulation Authority."

COMMENT

STEPHEN GAZARD

Directive action

Implementation of the Mortgage Credit Directive on 21 March 2016 will herald further change for our profession. It will also require mortgage brokers to be vigilant in advance, as the way all lenders will deal with outstanding pipeline cases post-implementation is still not completely clear.

The concern among many of the brokers I meet is that any mortgage business written on the current basis and which has not completed by the implementation date may require additional disclosures under the new rules.

The hope is this can be avoided, with feedback from some lenders suggesting a binding offer will be sufficient to allow the mortgage to continue to completion after 21 March.

Over the coming months, we expect to see more lenders amending their systems to start asking for MCD information, and producing MCD-compliant documentation early in 2016 so even if the mortgage has not progressed to formal binding offer by 21 March there should hopefully be no need to do anything further.

As we approach the MCD implementation date, brokers need to stay vigilant of any changes being made to lenders' policies and criteria, and understand how their transition processes will work.

Advisers should stay close to their network, support services provider, lender BDMs and the media to make sure they get the information they need in a timely manner and avoid the risk of having to undertake any additional work.

Stephen Gazard is managing director at Sesame Bankhall Group

Independent thinking

NIC CICUTTI

Dying trade bodies and 'onerous' rules make way for duff products

The actions of the ABI and the IA demonstrate they would rather close ranks against consumers

Are financial services trade bodies locked in a death spiral, unable to resolve a conflicting challenge of whether to advance the interests of consumers or members? That was the question asked last week by *Money Marketing*, which examined the difficulties faced by a number of bodies in the industry, including the Association of British Insurers, the National Association of Pension Funds and the Investment Association.

MM reporters Valentina Romeo and Sam Brodbeck spoke to experts and the consensus appeared to be that the so-called Big Three - or is it the Big Four? - have reached a "turning point" and "must act quickly" if they are to survive.

As someone with a long-term interest in the representation sphere, as well as having written about the industry's trade bodies for more than 20 years, perhaps I might be allowed to declare an interest.

About 35 years ago, I attended a Trade Union Congress conference as a delegate of CoHSE, a mid-sized health union with a membership based largely round large mental health and learning disability hospitals. CoHSE's aim had long been that of uniting all NHS health workers under one union umbrella. But the truth was most of our thunder had already been stolen by other unions like Nupe, who presented themselves as more militant and were nimbler at recruiting members.

Also at that conference were members of the stevedore's union NASD. In the mid- to late 19th century stevedores mostly worked in a ship's hold, loading and unloading the cargo. They did the "stuffing" and "unstuffing", a skilled job that marked them out from dockers, who worked largely on the quayside. Over time, the two jobs gradually merged together. As the 20th century progressed, most dockworkers increasingly found themselves in the transport workers' union T&G. Eventually, with the growing spread of containerisation in the big ports, the NASD eventually merged with the T&G in 1982.

In our case, after many years of holding out against the inevitable, CoHSE eventually merged with Nupe and the local government workers' union Nalgo to form what is now known as Unison in 1993.

Why do I mention my experience of trade unions in the 70s and 80s? Because, it seems to me, there are several lessons to be learned from it.

One is that groupings set up to represent the interests of their members are viable only as long as their membership is numerically sufficient to sustain the organisation itself, as well as its role.

In the case of Apfa and the NAPF there are questions as to whether this will always be the case. For the NAPF, it is the decline in the number of occupational pension schemes that is the problem. For Apfa, the issue is more to do with the perceived relevance of the organisation to its actual as well as prospective members.

Of course, you can always broaden the scope of the organisation itself. But if so, you must be able to show you have influence sufficient to deliver results for members, if not in the immediate term, then certainly further down the line, once it grows. It is hard to see either Apfa or the NAPF being able to do that. In that context, it is hard to understand why Apfa agreed to split with the Association of Mortgage Intermediaries in 2012, when the overlapping interests of both sets of members would have been better served in one organisation.

The ABI, on the other hand, retains potential. Its members are repositioning themselves to take on greater presence in the fund management space and if the trade body itself were to seek to represent these specific interests more fully, it could prosper even where its life side begins to falter, despite some defections.

A trade body's influence is only as effective as the colour of the Government it is talking to. Right now, blue is definitely the colour

In turn, this raises questions about the merger in June last year between the ABI's Investment Affairs division and the IMA, which led to the creation of the Investment Association at the start of this year.

Arguably, in a situation where many potential IA members are declining to be represented by their trade body, not to mention those who have stated they are leaving, a weakened IA might be better off within the ABI itself.

But my final point is this: what are trade bodies there to achieve? And how might they achieve it? Whatever their objective, the best chance of success for the industry lies in growing the market and winning over more consumers. Yet the actions of the ABI, as well as the IA in recent weeks, suggest they would far rather close ranks against consumers.

They are being aided and abetted in this approach by a change in Government strategy towards the financial services industry, doing away with supposedly "onerous" regulations and making it easier to sell duff products to consumers.

This is, I suspect, the new direction of travel for the FCA, as evidenced in its Financial Advice Market Review. It may also explain why the IA felt able to defenestrate Daniel Godfrey. Why bother listening to the needs of consumers on issues like product clarity or how to avoid misselling when the Government no longer requires you to? Ironically, this proves my final point: a trade body's influence is only as effective as the colour of the Government it is talking to. Right now, blue is definitely the colour.

Nic Cicutti can be contacted at nic@inspiredmoney.co.uk Follow him on twitter @NicCicutti

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LEE ROBERTSON

Ripe to be divided and conquered

The phrase "divide and conquer" has been attributed to many different people over time, including kings, emperors and other historic figures.

The strategy has long been used by those in or seeking power to encourage divisions among subjects or opposing forces by fostering distrust. It is also used to encourage meaningless expenditure to reduce the capacity for action or progress.

You might be asking where I am going with this. Well, rather than being on the receiving end of some malevolent outside force, I really do wonder if we are inflicting this strategy upon ourselves.

Daniel Godfrey's dramatic departure from the Investment Association has got me thinking about the future of our trade and professional bodies.

There are so many that we are, arguably, ridiculously overserved by organisations which do not really complement (or compliment) each other. They struggle to convince us they really do stand for their members or the consumer, or both.

On top of this, there seems to be a merry-go-round of high-profile departures, from life companies from the Association of British Insurers to the aforementioned Godfrey. There are also real issues with support and viability for adviser trade bodies.

For example, Apfa appears to be struggling to attract and retain members, while Gill Cardy's admirable attempt to stand up for the adviser with the Adviser Centre failed to garner enough support to really get going.

These bodies appear to be struggling with the friction inevitably caused by attempting to serve many competing members and deliver the transparencies and benefits the investing public needs. Trying to unravel the proverbial Gordian knot that is lobbying the Government and the regulators on behalf of so many vested interests must be extremely difficult to say the least.

Trade bodies appear to be struggling with the friction caused by attempting to serve many competing members

For once, I am going to give the banking sector a bit of a backhanded compliment. The British Bankers' Association seems to make real headway. It too has lots of different members with competing business styles and approaches to its operational objectives; however, it appears to be able to marshal members effectively and deliver benefits and progress.

It might just be time for our infighting and (sometimes very obvious) attempts to protect vested interests to diminish dramatically for the greater good.

I suspect as long as we advisers, fund managers, platform providers and insurers remain, pretty much by our own choice, splintered and divided, we are ripe to be ruled and conquered.

A strong voice speaking on behalf of the collective appears to carry much more weight with the Treasury and the regulator than what we currently have to offer.

Lee Robertson is chief executive of Investment Quorum

KIM NORTH

Advice vital before savings are spent

This year we celebrate 30 years of *Money Marketing* and I have been contemplating what has been the most defining moment in financial services over that time. Of course, there have been world-changing events, such as the bankruptcy and subsequent collapse of Lehman Brothers in 2008.

Indeed, the largest bankruptcy filing in US history made markets shake like never before. There has also been legislation, such as the Financial Services Act of 1986, which laid the foundation of liberalisation and consolidation of the industry.

But even though the above are events that will always be quoted in history, my mind keeps coming back to the outcomes of the RDR.

While not in itself the biggest, most significant event of the last 30 years, it has inadvertently led to thousands of lines of press comment about poor consumer outcomes and people believing they cannot afford financial advice.

Citizens Advice announced this month that almost half of the adult population - more than 23 million people - would have taken financial advice at key moments of their lives if they had been offered it.

In December 2012, the first month in the brave new RDR world, the number of IFAs and tied advisers was 20 per cent down on December 2011 figures. The number of bank advisers had fallen 44 per cent. These numbers may now be increasing again thanks to the fact the demand on examination halls has subsided but the demand for financial advice is higher than ever before.

Chancellor George Osborne's unexpected announcement on pension freedoms could well result in unintended consequences, with Royal London reporting 69 per cent of its pension clients have taken their entire pension fund as a cash lump sum since April. One Fidelity client even took the cash and bought a Routemaster bus.

In order to ensure pension freedoms are more efficiently offered, the FCA is consulting on many matters, including how providers can give consumers information on the sustainability of their income.

Over the years, I have been to many conferences with speakers glowingly sharing the Australian pension "success" story.

However, today, one-third of older Australians are living below the poverty line. There are lessons that should be learnt from the country.

Indeed, in the UK, one in six pensioners are living in poverty. It is crucial we ensure this figure does not get any worse and, as such, we need to make it easier for the 23 million people that have not received financial advice to be able to do so.

Whatever the outcome of the many FCA papers on financial advice and pension freedoms, half of the population desperately needs the banks and building societies to offer client-specific financial advice alongside an improved Pension Wise.

And they need to do this before thousands more people cash in their entire pension and spend it all on a passion.

Kim North is managing director at Technology and Technical

What advisers are saying

ON THE WEB

This is a small selection of the debate taking place online at moneymarketing.co.uk

We also like to receive letters to the editor, which can be sent to natalie.holt@centaur.co.uk or 79 Wells Street, London, W1T 3QN

Comment related to article: Why Pension Wise failure demands independent investigation

It is simple really. The clients of advisers should not be paying for Pension Wise. It has nothing to do with them and those that pay for advice should not be funding services for those that don't. If the Government wants Pension Wise, it should fund it from general taxation.

Soren Lorenson

There is a feeding frenzy on the financial services industry, and this has many layers, which in turn reduces competition, innovation and access to advice. The amount I pay to fund Pension Wise is relatively small but it is compulsory. It is yet another very bitter pill to swallow, which is only exacerbated by the misuse of funds and personnel.

DH

Comment related to article: Police in cash haul over £11m landbanking and carbon credit scam

I get two calls a week from these outfits. I have apparently always requested a 'brochure' on the internet from a sister company. The staff they use tend to sound well educated, are plausible and are very eloquent. It is easy to see how members of the public can be drawn

EDITOR'S COMMENT OF THE WEEK

Pension Wise has failed to deliver

There is surely enough evidence on Pension Wise's failures for the Opposition to take the Government to task. Pension Wise was an integral part of the pension freedoms, and was often used to rebut suggestions that the reforms were reckless and would leave people exposed to poor outcomes.

Although it has faced criticism from the start, it has proved to be an even bigger disaster than feared: limited exposure of the service because of the purdah rules, significantly lower take-up than even the most cautious estimates, no clear gateway to regulated advice after use, and now the revelation that Pension Wise staff paid for by levies are being reassigned to other tasks.

The Treasury and Work and Pensions committees should revisit their pre-April discussions and recall how much stock was put in Pension Wise to protect the public.

The cost of the service and misuse of funds is one thing, but the bigger issue is that the service has not delivered what it was supposed to. Depending on your point of view, it was either a pointless exercise all along and therefore a complete waste of money, or the failure is a contributing factor in the rise in scams and any future fallout from misselling/misbuying scandals.

Mick Hudson

ADVISERS

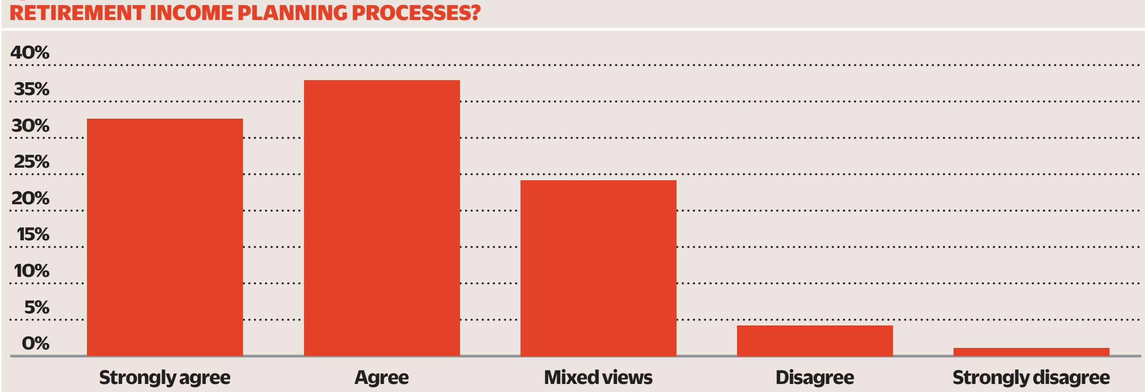
PHIL WICKENDEN

Act now and avoid regret

But I didn't do anything!" That is the first and best defence every toddler learns. If you do not do anything, you do not get in trouble. Well, not always. I watched a toddler try this line of defence at a soft play last week: having observed a fellow toddlee diligently construct a tower of Peppa Pigs, Ninkynonks and Twirlywoos, the hitherto passive child stepped in with great vengeance and furious anger to systematically destroy the other's fine work. His plea was not as effective as his handy work.

But somewhere along the path called life it flips. "I did not do anything when I had the chance" becomes regret. The lost opportunity; the skill not learned; the business transformation

Q: POST PENSION FREEDOMS, DO YOU THINK THERE IS A NEED FOR MORE ROBUST AND CENTRALISED RETIREMENT INCOME PLANNING PROCESSES?



SOURCE: SO HERE'S THE PLAN

Your two cents worth?

We've had 500 adviser comments on our website in the past month
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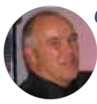
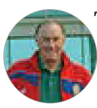
in to these scams. We need the FCA to do more to educate the public.
Darren Fisher



Comment related to article: MPs push for two-year FCA fee freeze

"We are always conscious of the cost of regulation, which is why we work to ensure our requirements are proportionate." Proportionate to what? Their wages? Their bonuses? The amount of work they do? What they think they are worth?
David Brookes



The archetypal Catch 22 - higher fees/levies means fewer advisers over time, which means higher fees/levies to keep the fat cats in the manor. It is a lose/lose situation.
Clive Matthews

Comment related to article: Treasury mandarins in running to replace FCA's Wheatley

I am sure FCA interim chief executive Tracey McDermott will not get a look in. This is the Government's chance to put one of its own in charge to finally bring the FCA to heel. They are sick of the FCA's 'can't do' attitude.
Lindsay Lockett

Get someone with real industry experience, not another civil servant

who has never been at the sharp end. Otherwise it is another Chilcot type - unsuitable, remote and ineffectual. There is a huge universe of talent outside the moribund charmed circle. Recruiters, go fetch.
Charles Cary-Elwes

Comment related to article: Consumer Panel chair: Long-stop is a red herring

These comments by Sue Lewis are not helpful. The industry is a different creature from 20 years ago. Advisers are more highly qualified, have PI cover and pay fees for the continuing existence of the FOS and the FSCS.

The removal of a right enjoyed by every other business is unwarranted. The old chestnut about the "long-term nature of products" falls apart under scrutiny. Consumers should take responsibility if they fail to understand or review their various plans. Architects, doctors, consultants and many other occupations deal in advice where there is a long-term nature to the advice. Nobody is calling for them to suffer the long-tail consequences.

The FCA/Treasury/Consumer Panel et al should stop treating advisers like naughty schoolboys that need regular purgative treatments and instead treat us like a profession.
Alan Lakey

delayed. While the products historically used for retirement planning may still be relevant, the way in which they are used is already quite different post-pension freedoms. Our adviser research points to the likelihood that the individual products of yesterday will increasingly be combined with innovative emerging solutions to create far more personalised retirement portfolios. Professional advice is going to be key to making sure people are able to meet individual financial and (importantly) emotional retirement needs.

This brings opportunities but it also brings risks. Every retirement discussion will be different. Advisers' roles will further evolve to reflect the wider choice of solutions available for individuals at retirement and the broader set of risks that necessarily come with that choice. So, how are advisers responding? More recognise pension freedoms do not have to be just a question of income.

The fact that pensions can now be fantastic for wealth transfer and supporting the next generation on their retirement savings is a compelling opportunity. At present, there is unlikely to be systemisation, formal process or policy around drawdown advice in many adviser businesses, each client being dealt with on a bespoke basis.

Adviser firms that focus on developing robust repeatable efficient processes around retirement - a centralised retirement proposition - have a unique opportunity to create value for the people of the UK while also growing and creating value in their own business.

This is something 70 per cent of advisers agree with in principle although the majority (59 per cent) are yet to act. Would it not be great if we knew what our regrets were when we still had time to do something about them?

Phil Wickenden is managing director of So Here's The Plan

AT THE COAL FACE

ALISTAIR CUNNINGHAM

Rise of the machines a long way off

Growing up in the county town of Kent, I only had the most rudimentary grasp of the Queens' English. This leaves me significantly disadvantaged when I have to battle voice-activated systems like National Rail Enquiries or Vue Cinemas' booking line. I am also the one holding up the queue in Tesco with the "unexpected item in the bagging area". I am consistently let down by technology.

Automation started by removing the human element (and cost) from simple, systematic tasks. As technology has evolved, planes have been taught to fly themselves, robots build cars and the insurance comparison site has been born.

So advice is next, right? Actually, no, the speculation over the rise of robo-advice is massively premature. Robo-advice can be described, at best, as tools that generate a limited range of outcomes after completion of online risk questionnaires. They are investment sales tools and nothing more. They are also, in the UK particularly, expensive.

Looking first to the US, which is often highlighted as leading the way in this market, the services gravitate towards the vanilla risk-profiling, fund optimising, auto-rebalancing investment platforms.

In some cases some systematic tax planning is offered, helping individuals to identify capital losses or gains, as well as assisting with sale decisions, often by diversifying away from heavy over-exposure to individual stocks.

Charges usually come in at under 0.5 per cent per annum: not disproportionately costly for smaller pots.

The UK market is more juvenile and, as I say, costly. Charges are around 1 per cent per annum, with some discounts on larger portfolios. It is widely reported these firms are loss-making and functionality is universally less than comparable US sites.

These technology-driven solutions may be appealing to younger, high-earning individuals wanting to save without clear long-term goals but they are not a replacement for proper, holistic financial planning.

As financial planners we help individuals with more than risk profiling although this is part of our role. We question deeply, we identify goals and objectives, and we help prioritise these. We help clients understand their behavioural traits, their rational and irrational reactions to external events, often outside of their control. Most importantly, we condense all this information in an intelligible format and provide as little or as much additional information as they require. Robots cannot (currently) make these judgements or assist with these uniquely human discussions.

But that is not to say technology has nothing to add. Computers are unarguably unbiased, driven by strict process, and can help mitigate errors, particularly when caused by human biases. Robo-advice may help drive down some costs, for example, the collation of "hard" facts, commencing the risk profiling process. A human operator steps in when required.

By embracing appropriate technology, these robo-advice platforms will benefit us and our clients over the longer term. There is a lot of nonsense being talked about robots but has it not always been thus? I send more emails than I do letters but my secretary is not scratching around for things to do. Maybe when Dragon Dictate can understand my Estuary English she might worry but, for now, we are long way from the rise of the machines.

Alistair Cunningham is director at Wingate Financial Planning

Do you agree with Alistair's views? Join the debate
@moneymarketing.co.uk

MICHELLE CRACKNELL

'We need to catch people before they make an emotional commitment with their pensions'

TPAS chief executive on her ambition to make guidance a social norm

SAM BRODBECK

Michelle Cracknell is in very select company. She must be one of only a handful of pensions professionals who are thankful the Government unleashed the freedom and choice reforms 18 months ago.

"I got really lucky in March 2014 when George Osborne got up and thrust pensions right into the spotlight," says The Pensions Advisory Service chief executive. "I've had the opportunity of looking after this organisation at a time when more people are talking about pensions than ever before."

Cracknell is not underestimating the sudden increase in attention that TPAS has attracted since it was chosen, along with Citizens Advice, to deliver Pension Wise, the Government-backed guidance service.

The Government has been criticised for low take-up of the service. According to FCA figures, more than 200,000 have accessed their pensions since the freedoms took effect, but only 20,000 exercised their right to an appointment with Pension Wise.

However, Cracknell says TPAS, which delivers the 45-minute guidance sessions via telephone appointments, has not been running under capacity. TPAS has always been the more favoured of the Pension Wise delivery organisations. For one, it has a long track record. The organisation has been running a helpline providing information on all types of pensions for many years. It also imposed a minimum requirement of five years' industry experience, while Citizens Advice deemed pension experience non-essential.

Despite the high bar, Cracknell says her new recruits have exceeded the requirements "by a long shot".

"It's been very humbling seeing how many people have put their hands up to join us. The amount of vocation we have is fantastic; I don't have two different types of staff."

Advisers, pension lawyers, actuaries and even a former head of defined contribution at a major retail bank have joined the ranks of TPAS, typically looking for a "swansong" as they begin to wind down working.

If Cracknell feels she has been thrown in at the deep end, she can take comfort in the fact that she has been there before. She studied to be a civil engineer and had an eye on joining her parents in the US, where her father, an RAF pilot, was stationed. But because her father's term would be cut short if she moved to the US, she came back to the UK.

I was telling staff 'you're not going to like what I'm about to say because we're closing down your final salary scheme'

It was the 1980s, financial services were booming and everyone wanted to work in the City. She completed the graduate training programme at Friends Provident but wanted to work directly with consumers. She most admired a firm that specialised in setting up small self-administered schemes called Advisory and Brokerage - which would eventually become part of Origen - and applied directly. After qualifying as an actuary she helped build up the defined benefit side of the business.

Rumours that the Government was planning to make escalating pensions in retirement compulsory were circulating and small employers began looking for alternatives to expensive final salary schemes.

"It was a baptism of fire. I was standing up in canteens telling staff 'you are not going to like what I am about to say because we're closing down your final salary scheme'. The lesson I learned was to be really upfront with people."

It was on these trips that Cracknell learned the importance of getting outside the "financial services bubble" and communicating with ordinary savers.

"I remember going to County Durham to a company that made widgets and window latches. I went in there and stood up at 3am,

Movers and movers on

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CV

2013-present: Chief executive, The Pensions Advisory Service

2010-2013: Consultant, Bluerock Consulting

2007-2010: Strategy director, Skandia

19882007: Director, Advisory and Brokerage

because they ran night shifts, to tell them we were going to close down the scheme. There's the emotion of not caring until you realise you are about to lose something. Every member of staff had an opportunity to speak one-to-one about the changes, but we hadn't spoken to any women. You realise you sit in the financial services bubble. I'd sold the idea of a one-to-one for every member but we didn't think from the staff's perspective.

"It turned out the women were more comfortable coming to talk to us in groups. That was a lesson learnt: don't make those kind of judgments."

While Cracknell is a fan of Osborne's freedoms, she warns: "You can't just open up the box of chocolates and tell people they can have as many as they would like.

"Osborne's achievement was that he said something that made people think their pension could actually mean something to them. The real win has been people have made very considered decisions and our objective at TPAS is to make more people think about pensions.

"It is really important for the Government and industry to commit to support and encourage people to get engaged. If they do that, most people will make good decisions. But we have to do the two in parallel.

"We've got two interventions at the moment. You're signposted to Pension Wise and reminded at the point you take benefits of all the things you should think about in the second line of defence rules.

"But we need to continually look at how we deliver that. We think the signposting happens at the wrong point. We would love to see guidance become the social norm and think it should be similar to NHS checks. The Government could handle when you are alerted; at a certain age, for example."

She says too many people are approaching providers having already made up their mind about what they will do. "When you phone a provider you've made a level of emotional commitment and you're more in a transactional mode. We need to catch people before they've done that and get them to consider things earlier."

Both TPAS's national helpline and the Pension Wise appointments will also have to adapt, says Cracknell. Staff have already had training from the Council of Mortgage Lenders as a result of an increase in users asking about housing issues. "I'm really proud of what we've done but it's still only the tip of the iceberg."

Platform focus

ASCENTRIC

MIRANDA SEATH

Shot in the arm for 2016

Heavy investment in technology improvements could start to pay off for Ascentric early next year

In this week's platform focus, we turn our attention to Royal London's Ascentric. Of the 23 platforms we track, it is the 11th-largest in the UK by assets under administration, with £9.6bn as at 30 June.

The platform's AUA growth has been slightly behind the market average but this appears to be due to greater exposure to volatile markets. With higher than average case sizes, the platform has an increased diversity of investments and carries more exposure to volatile stocks.

AUA is up 19 per cent for the 12 months to the end of Q2 and we see this as a fairly good result, considering it has been focused on replatforming for the past two years, limiting its capacity for proposition development. We see a rosier picture for net sales on the platform in Q2, with a 43 per cent increase from Q1.

Since managing director Jon Taylor's move to Ascentric in January, Royal London has sold the client book of its D2C proposition Fundsdirect to Strawberry, signalling a clear intent to concentrate on providing services to the intermediary market. Its recent deal to provide a white-labelled platform to Partnership will broaden its reach in the adviser market further.

Clearly, Taylor's strategy and ambition is sound but it has yet to translate into a real turnaround in Ascentric's adviser ratings and we have seen a shift away from advisers using its as their primary platform. In Q4 2014 (the first quarter we collected this data), one-third of advisers we surveyed using Ascentric classed it as their primary platform. This has shrunk to just 17 per cent in Q2 2015, while the share of secondary platform users jumped up from 18 per cent to 57 per cent over the same period. Advisers tell us the Ascentric website is clunky and slow. Indeed, its scores for web usability and usefulness of online tools are below industry average.

The platform does not offer risk profiling or asset allocation tools but tells us this is a deliberate strategy based on feedback from advisers. However, it recognises its technology is in need of an overhaul and has invested heavily. It assures us we will see in upgrade in Q1 next year.

On the other hand, advisers consistently tell us they are very happy with the range of funds and tax wrappers available on the platform. Investment choice really matters: 74 per cent of those we surveyed in Q2 placed it in their five musts of the perfect platform. Of those that provide us with data on tax wrappers, Ascentric is the only platform that offers Qrops, with SSAS and Section 32 wrappers also available. Cannily, it has also responded to the growing demand from advisers to outsource to on-platform discretionary fund managers, offering access to 37 DFMs. Of the 48 per cent of total assets on platform in model portfolios in Q2, 46 per cent of these were in DFM models.

In a series of interviews we recently conducted with DFMs, Ascentric was named as one of the favoured platforms to work with, offering the back-office support needed for model portfolios and bespoke fund picking. We see the movement of discretionary assets on-platform as a key growth area for the adviser platform market in the next three years. With the launch of a new front end and the transitioning of its back-office platform technology to Bravura's Sonata, 2016 looks set to be a significant year for the Ascentric business. These developments may just provide the shot in the arm it needs.

Miranda Seath is senior researcher at Platforum

PLATFORUM WRAP FACTS

Date of launch Aug-06
Ownership Royal London
Current AUA £9.60bn (30/06/2015)
Number of IFA users/End users 2,400 advice firms, 71,245 end users

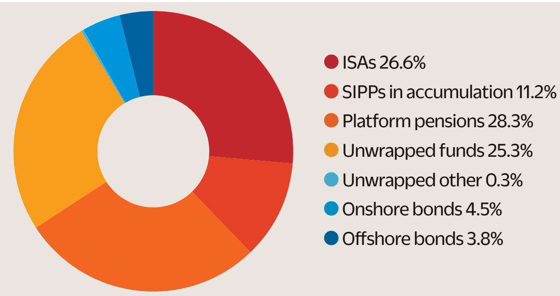
PRODUCTS AND ASSETS

Bond • Cash • Equity • ETF • Gilt • Investment Trust • Loan note • OEIC • SICAV • Structured Product • Unit Trust • VCT

TAX WRAPPERS

GIA • Stocks & Shares ISA • Personal Pension • SIPP • Offshore Bonds • SSAS • Section 32 • QROPS

ASSETS BROKEN DOWN BY TAX WRAPPER



BREAKDOWN OF CHARGES

	GIA		ISA		SIPP	
	Standard	Inclusive	Standard	Inclusive	Standard	Inclusive
Annual admin fee	0.1% - 0.25%	0.1% - 0.3%	0.1% - 0.25%	0.1% - 0.3%	0.1% - 0.25%	0.1% - 0.3%
Tax wrapper set-up fee	£0 - £49,999 = 0.05% • £50,000 - £149,999 = 0.10% • £150,000 - £249,999 = 0.15% • £250,000 and above = 0.40%					
Interest on cash	Currently 0%					
Transaction fees	£1 - £20*	Funds: free**	£1 - £20*	Funds: free**	£1 - £20*	Funds: free**
Transfers in/out					Out: £75	
Flexi-access drawdown set-up charge						
Flexi-access drawdown ongoing charge					£150+VAT	
Other	For Standard Accounts: Model portfolio admin charge: £60					

*For mutual funds: £9.50 (£2 in a model portfolio, £1 for DFM models). For listed securities: £20 (£4 in a model portfolio, £3 for DFM models). ** ETI trades in models: free . ETI trades outside models: £20

Smarter business

SIMON COLLINS

Advising the advisers

The new world of pension freedom puts firms' governance controls firmly in the spotlight

A lot has been written recently regarding the potential benefits and disadvantages to consumers of the relaxation of the pension rules, including the impact of the change in definition of a pension transfer.

Consumers now have much greater choice when it comes to taking pension benefits or even just moving them from one provider to another. The need for clear advice is growing ever stronger, with some providers insisting on the involvement of an adviser to transact certain "transfers" over and above the minimum requirements set out by statute. However, do adviser firms always know what is best for their clients? And how do they control their advisers to ensure the best course of action is achieved?

Good governance arrangements within firms are, of course, crucial in achieving the best outcomes for clients. These arrangements cover all aspects of the firm's activities from procedure drafting to training and competence, and recruitment to suitability report writing. Time and time again, however, the FCA finds firms in breach of the standards that have been clearly articulated by it and previous regulators. Pension switching and insistent clients are two areas of weakness.

The then FSA published its guidance on pension switching several years ago and provided a template document that firms could use to demonstrate the suitability of transactions. The FCA has also provided guidance to firms on insistent clients and the steps expected when undertaking switches to Sipps. For example, firms cannot avoid responsibility for the investment into which the client wishes to switch even if the client has simply requested advice on the vehicle to which to transfer.

Similarly, while the insistent client route exists, firms need to be aware the FCA believes the insistent client is the exception rather than the rule. Therefore, firms still need to take the greater consumer wellbeing into account in facilitating a transaction that is against their own advice.

Too often these basic checks and balances are missing and too often firms' systems and controls are being found wanting to both consumer and firm detriment.

Furthermore, with the publication of CP15/30 earlier this month there are a lot more rule changes on the horizon. They include changes to the definitions of "high net worth" and "restricted" investors to ensure lump sum pension withdrawals are not considered to be income. Without this change there is concern many more individuals would, inappropriately, be able to consider themselves to be high net worth or restricted and thereby be exposed to higher risk investments not usually considered to be suitable for retail clients.

The proposed changes also seek to clarify the position regarding advising clients to access pension savings to repay debt with a reminder that such activity is regulated and that pressure to take this course of action is considered to be contrary to treating customers fairly.

Finally, further guidance is proposed to ensure advisers take any pension attachment orders into account when advising clients on the taking of pension benefits. This is considered necessary as, although the client is unlikely to include their ex-spouse or partner, it could be considered a breach of the client best interests requirement to not take the conditions of such an order into account.

The proliferation of consumers wishing to consider the new at retirement options with their pension benefits makes the need for greater controls in these areas ever more acute. Firms should consider undertaking a review of existing governance arrangements to ensure the appropriate controls are in place to manage the risks to customers and the business alike.

Simon Collins is managing director, regulatory, at Eversheds Consulting

COMPLIANCE TIP OF THE WEEK

Taking control of data access

Data access requests from your clients may be common and easily dealt with but what about requests from third parties. The Information Commissioner has issued updated guidance on the application of section 29 of the Data Protection Act 1998, which relates to the ability of a data controller (your firm) to share personal data with third parties for the purposes of crime prevention or detection, the prosecution of offenders and/or the assessment or collection of tax.

The Act allows disclosure of data in certain circumstances but does not require it. The decision on whether to disclose lies with you as the data controller. In deciding to disclose, you must be satisfied it is for one or more of the purposes listed above and that the withholding of data would prejudice these.

You should treat each request for personal data on its own merits.

Requests may come from the courts or HM Revenue & Customs. In these cases, where there is appropriate evidence of an official investigation, the decision to disclose should be clear-cut.

If you receive a request from a solicitor, for example, you would need to see appropriate evidence of the reasons for the disclosure request, such as official papers relating to a criminal investigation.

You should also ensure the data is transferred securely and that what is released is not excessive and is relevant to the purposes behind the request.

Phil Young is managing director of Threesixty

NICK EATOCK

Smart IT can make advice affordable

Technology can unlock a potentially rich source of clients, regardless of the value of their assets

What is a reasonable price for professional financial advice? This question has been brought into sharp focus now the Government has launched a review into how the interests of all consumers - not just the wealthy ones - can be better served by the financial advice sector.

The traditional advice model, where face-to-face meetings and comprehensive reviews are the norm, delivers high quality outcomes, but it comes at a price. Unfortunately, for many people unfamiliar with using such a model, the price advisers need to charge in order to make a living may not match what consumers think they should pay.

This became apparent recently when we surveyed 1,000 consumers earning more than £40,000 and asked them what amount they thought was reasonable to pay for advice. The majority - 63 per cent - said they would pay under £100 per hour, with a third saying less than £50 per hour. For many advisers, running a successful, traditional model business with such low hourly rates is untenable.

But the pension freedoms have prompted a need for advice among all sorts of people who have savings squirreled away in pension pots set up either by themselves or through various company schemes. Before April, many of these people would have easily slipped into having their pension savings switched into an annuity, choosing to take the advice of the provider of the pension savings plan.

For advisers who have decided to focus on those with significant wealth, the debate about whether it is cost-effective to offer advice to a broader spectrum of society is academic. But there are only so many wealthy clients to go around. With the Government keen to see access opened up, many forward-thinking advisers will be looking at how they can adopt a business model to fulfil the needs of all types of clients cost-effectively.

The good news for those looking at this broader opportunity is technology holds the key to unlocking the potential for profitable relationships, regardless of the value of assets.

Of course, technology alone is not enough. To develop a successful business model requires focus, drive and an investment in creating the right infrastructure. Surprisingly, this does not have to be as daunting as it sounds. Many firms will already have management information in place that informs them about how profitable their existing business is and where that profit is coming from. A relatively small amount of time spent segmenting clients and reviewing how the business is servicing them can provide a springboard to developing ideas about how to provide cost-effective solutions to meeting those clients' needs.

Having digital access to management information is something most advisers expect but today's technology can provide so much more. Integrated systems can interact with product providers, manage complex compliance processes and communicate with clients via secure portals.

Such portals also enable advisers and clients to access their specific information securely at any time, without the need for expensive face-to-face meetings or even telephone contact. Such convenience means advisers are able to review how they price their advice models in order to meet the differing needs of clients, and depending on their requirements and financial situation.

Looking ahead, the adviser firms that have smart IT at the core of their infrastructures will be equipped with the tools not only to service clients with small saving pots but to compete with anything that the big banks and product providers can offer.

Nick Eatock is executive chairman at Intelliflo

BUSINESS TIPS

DAVID SHELTON

People power

You have to operate clear processes in order to get the best out of people and minimise the risk to your business if things go wrong.

The key people processes that help with this are:

- Job descriptions: clear objectives for each job
- Performance management: managing performance against the job description, developing people and rewarding them
- Reward structure: ensuring the way you reward people creates the outcomes and behaviours that are right for your business
- Recruitment: recruiting against the job description and well-defined selection criteria
- Communications and change management: avoiding the vacuum of silence and working with people to make changes happen and help the business to develop.

The benefits of having well-defined people processes are:

- People know what is expected of them and how they are performing
- Setting pay scales, salary increases and bonuses can be undertaken against objective and clear criteria
- Recruitment can be undertaken with a good degree of objectivity
- Development and training can be linked to business needs as well as individual career development
- Managing people becomes a professional task as opposed to an emotional challenge.

David Shelton is a consultant at Stoke Bishop Associates

TAX AVOIDANCE

TONY WICKENDEN

Joined-up thinking

Advisers must be able to demonstrate to clients knowledge of the difference between legitimate tax planning and bending the rules

Government action against tax avoidance has made the headlines on numerous occasions over the past few years, with significant developments in litigation, legislation and early tax collection, via a combination of follower notices and accelerated payment notices. Add to this the expansion of the disclosure of tax avoidance schemes, hallmarks to improve HM Revenue & Customs' awareness of what is in the market as well as its ability to issue APNs, and you have a pretty joined-up strategy.

The so-called tax gap - effectively the difference between what HMRC should collect if the tax legislation were perfectly applied, as intended, and what is actually collected - is officially estimated to be in excess of £30bn, or almost 7 per cent of theoretical tax liabilities. While the UK tax gap apparently compares well to that found in other countries, the Government is, understandably, determined to reduce it further.

The Government (and the previous coalition) has cracked down on those determined to break or bend the rules with radical initiatives. As a result, it has changed the economics of tax avoidance by reducing the incentives for entering into avoidance schemes. It has also worked to ensure HMRC has the tools and powers it needs to address evasion and avoidance.

Many avoiders have been found by HMRC or have come forward to put their tax affairs in order. The key means to achieving this end has been the various disclosure schemes promoted - for example, Liechtenstein, Isle of Man, Channel Islands and Switzerland. Through these, many using offshore deposits and other strategies have sought to pay up or decided not to engage in further schemes. They have offered immunity from criminal prosecution and reduced penalties. However, they are coming to an end shortly, with a less attractive "last chance saloon" option in the upcoming tax year.

All the action against aggressive avoidance has caused some confusion over what is acceptable and what is not. Tax evasion is and always has been illegal. This is when people or businesses deliberately do not declare and account for the taxes that they owe. It includes the hidden economy, where people conceal their presence or taxable sources of income.

On the other hand, tax avoidance, according to the Government, involves bending the rules to gain a tax advantage Parliament never intended. It often involves contrived, artificial transactions that serve little or no purpose other than to produce this advantage. It involves operating within the letter, but not the spirit, of the law.

All the action against aggressive avoidance has caused some confusion over what is acceptable and what is not

Tax planning, meanwhile, involves using tax reliefs for the purpose for which they were intended - for example, saving via an Isa or a pension scheme. However, tax reliefs can be used excessively or aggressively by others than those intended to benefit from them or in ways that clearly go beyond the intention of Parliament. Where this is the case, HMRC believes it is right to take action, as it is important the tax system is fair and perceived to be so.

Understanding clearly the difference between evasion, unacceptable avoidance and tax planning is incredibly important for financial planners, as is being able to clearly and simply articulate these differences. Of course, perhaps most important is being able to apply these definitions to any tax-reducing strategy, so as to be able to correctly categorise it and advise the client appropriately.

This kind of practical tax know-how will also be hugely useful in proving competence and trustworthiness to professional connections.

Tony Wickenden is joint managing director at Technical Connection

BUY-TO-LET

DANBY BLOCH

Rich pickings for Osborne

The Chancellor's decision to limit the amount of tax relief on properties for let will be a blow to investors

Buy-to-let is under attack by the Government. Indeed, the Chancellor clearly thinks the current rules are too generous, particularly for higher rate taxpayers. Two major changes were announced in the summer Budget which could potentially have a dampening effect on the market.

Buy-to-let has proved to be an attractive way to build up assets for retirement. Partly, this is because the inadequacy of supply of properties (especially in London and the South-east) has underpinned the market. But the tax system has also provided a terrific boost. Property for let is pretty much the only investment available where you can borrow to invest and get full tax relief on the interest. In theory at least, you can buy a property largely with borrowed money and the rent will more or less cover the interest, with no tax to pay on the rent as a result.

The Government has decided this is too good to leave alone. The biggest blow to investors is the decision to limit the tax relief for interest on loans for residential property businesses carried on by individuals, partnerships and limited partnerships. That will cover a wide range of finance costs beyond interest. However, in practice, it will mainly affect the interest on loans to buy property for renting.

The proposed new restriction will not apply to businesses carried on by companies, nor will it affect "furnished holiday accommodation".

Tax relief on interest will be limited, in effect, to basic rate tax. To allow landlords to adjust, the change will be phased in over three years, starting in April 2017. The new treatment will affect a quarter of an investor's interest payments from April 2017, a half from 2018 and three-quarters from 2019.

Strictly speaking, there will be a disallowance of the interest payments in computing the taxable profits of the letting business. Then there will be a tax "reduction" that will be broadly equivalent to tax relief on the interest payments at the basic rate. For example, in a year in which the new regime is fully functioning, Mike has a rental income of £30,000 and allowable interest of £20,000. He is a 40 per cent taxpayer on all this rental income. Under the current rules he has £10,000 (£30,000 - £20,000) taxable income and so a tax liability of £4,000. Under the new rules after 2020 he will have a taxable income of £30,000, on which his tax liability will be £12,000 less a reduction of £4,000 (that is, 20 per cent x £20,000) = £8,000.

A point to watch out for: the increase in taxable income under the new rules (even though the tax itself is diminished by the 20 per cent reduction) will push a fair number of basic rate taxpayers into higher rate tax.

This new system will introduce some extra complications, notably when a taxpayer is not able to use the new tax reduction relief in the relevant year, for example, because the rental business incurs a loss and the tax reduction has to be carried forward to future years.

Lots of buy-to-let owners are already thinking about incorporation and advisers could be asked what they think of the idea of running a letting business through a company.

On the positive side, profits in a company are taxed at corporation tax rates: currently an attractive 20 per cent and due to fall further. But there are downsides. For starters, there is the new dividend tax that will kick in in April 2016. Higher rate and additional taxpayers will benefit from the new £5,000 tax-free dividend allowance but, above that, all taxpayers will be subject to an extra 7.5 per cent tax rate on their dividends.

Then there is the capital gains tax position. There are effectively two layers of tax on capital gains: first in the company and then on the disposal of shares in the company. And as companies are immortal, the effective freedom from tax on the capital gain that applies on death to an individual who owns an asset directly will not apply to corporate assets. Anyone thinking of moving their property empire into a corporate structure will need some pretty switched-on property tax advice about the immediate CGT and stamp duty implications.

The other major change is the abolition of the wear and tear allowance. Landlords of furnished residential accommodation can deduct 10 per cent of the net rent, whether or not they actually spend the money on renewing and replacing furniture and other kit. The proposal is that this should be replaced by a relief for actual expenditure on qualifying furnishings, which will increase taxable income for many people.

Danby Bloch is chairman of Helm Godfrey

THE CPD CENTRE QUIZ

To help you to keep up with the fundamentals of tax, retirement and financial planning, try these two questions.

1 Jill has died leaving an estate to her children and grandchildren of over £900,000. In addition, she started a life policy under a discretionary trust for her grandchildren who are all over the age of 18. What is the earliest date funds can be paid from the trust?

A) Once the court has agreed

B) On grant of probate

C) On grant of administration

D) Immediately

2 Peter has been made bankrupt. He owes his employee Mark £1,000 in accrued holiday pay and £2,000 for an unsecured loan Mark made him two years ago. How are these debts treated in the bankruptcy?

A) If there are enough funds to pay the holiday pay and other preferential debts, Mark will receive that before the loan repayment. Otherwise he will receive the same percentage as the other preferential creditors. If there is enough to pay some of the loan, he will receive the same percentage as the other unsecured creditors

B) If there are enough funds to pay the loan and other preferential debts, Mark will receive that before the loan repayment. Otherwise he will receive the same percentage as the other preferential creditors. If there is enough to cover some of the holiday pay, he will receive the same percentage as the other unsecured creditors

C) The holiday pay and the loan are treated the same. If there is enough to pay some of these debts, Mark will receive the same percentage as the other unsecured creditors

Answers 1:D, 2:A

Questions supplied by CPD Centre

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How do you know it's time to upgrade your CMS?

by Ann Dempster, Plum Software Managing Director

Change is never easy, even when it's good for you. It's much easier to keep on doing what you've always done in your business. But what if you are working harder than you have to? What if you could create a more streamlined and efficient business just by upgrading your Client Management Software (CMS)?

Here are three simple questions to help you decide if it's time.

Is your business and client information in more than one place?

Do you store documents and data in folders or on a system other than your CMS?

A business-integrated CMS that can be indexed by details such as clients, policies, valuations, people, dates, types of policies, associated remuneration, etc. will ensure you always have the information you need when you need it. Further, reporting is a breeze when you link the required information to the type of report, including FCA compliance and Gabriel reports.

A proper CMS will allow you to scan, store, index, link, search on, and share all your business information in an unlimited number of ways, from any type of device. With everything in one place you never have to hunt around for relevant documents again.

Are you repeating yourself?

Are you conducting "business by spreadsheet" to work out what data you need from your underlying systems? Do you find yourself recreating the same letters and documents over and over?

If you have to have data to cross-match the data you already have in order to then enter it into your system (i.e. with new business registers), you need a new CMS. Your CMS should be able to organise your business so you never have to enter the same thing twice – enter once and then your CMS can work it out for you. Create and store letter templates with automatic mail merge, create standard reports that automatically update data, and set it up to automatically save the content in a diary or other centralised location.

Is it not as much fun as it used to be?

Are you spending too much time on admin and not enough time with clients? Are you manually entering transactions because your software doesn't have all the electronic valuations you need? Are you unable to delegate because your systems aren't in place or don't provide adequate oversight?

A good CMS lets you create workflows, run events and campaigns, assign and monitor tasks, and maintain accountability throughout your business. It has (or can get) all the automated valuations you need to keep clients' portfolios up to date. It will lighten your admin burden so you can spend more time doing things that really add value, like spending time with your clients.

Is it time?

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This role would suit an individual who is an effective communicator with good interpersonal skills and has an eye for detail. Field based experience in a similar role is essential.

Further information can be found on our website www.financial.ltd.uk/careers. or email Mona Makhecha hradmin@tavistockfinancial.co.uk.

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Our client is one of the pre-eminent names in the wealth management arena and a firm that have been at the forefront of fee based advice utilising ethical, highly qualified financial planners. As part of their ongoing ambition to be the advisory practice of choice for high net worth individuals in the UK, they require additional consultants to cope with the demand for their services.

They currently have a high calibre portfolio of clients and assets under management to pass on to new advisers along with assistance with marketing and professional connections. The firm offers excellent technical support with dedicated administration and paraplanning teams (20 of whom are Chartered) meaning that each consultant can maximise their time in front of clients.

The successful candidates will benefit from a brand and depth of client bank beyond that of the majority of wealth managers, working for a company with a clear focus on its direction and the values it has. Salaries are market leading reflecting not just the quality required but also the commitment the firm places in its staff. Such salaries can also be increased on an ongoing basis dependent upon performance and funds brought in to the company.

Wealth Planner - To £60,000 + Bonus + Benefits
Manchester

Exchange Street is currently working with one of the UKs leading Private Banks as they continue to add to their growing wealth planning division by recruiting an experienced consultant in Manchester.

Responsibilities of the role include providing comprehensive advice to predominantly high value clients across a range of tax efficient investments, estate planning and retirement planning. There is an existing client base in place for the new adviser giving them a platform from which to build however, like any forward thinking practice, they do expect their consultants to be proactive in developing new business opportunities. The firm's team of diploma qualified paraplanners and experienced administrators offer first class support to the wealth planners allowing them time to focus on client facing work.

To be considered applicants must currently be CF30 authorised in a similar role with an up to date SPS. Due to the complexity of their existing clients requirements, it is also expected that applicants will have prior experience of working with high value individuals and have achieved (or be close to achieving) chartered status.

To find out more about these vacancies or the many others that Exchange Street is currently working on, please call our Financial Services Team on 0161 973 6900. Alternatively, CV applications can be sent to recruit@exchange-street.co.uk or via our website www.exchange-street.co.uk

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The Wells Street Journal

A weekly account of the curious goings-on in the world of financial services

Mr Sex – just begging for a tag

WSJ is a fan of nicknames. Some are clever and handed out by others, like England rugby great Martin "Chariots" Offiah, or former footballer "One Size" Fitz Hall.

Others are rubbish and demanded by their owners, much to the mockery of those around them. Like that of - ahem - modest R 'n' B crooner LL Cool J, whose moniker stands for 'ladies love cool James'.

But *WSJ* cannot wait to hear the nicknames apportioned to Nest's executive director of change programmes and service management, Nick Sex.

Mr Sex, as *WSJ* will call him, has been at the provider since 2010, although his register of interests on the Nest website is disappointingly limited.

Similarly, the option to "download a hi-res image" of Mr Sex leads not to an image of Burt Reynolds lying on an animal skin rug in front of a roaring fire but to a man who has clearly heard all this before.

So there's a lot riding on those nicknames. Witty suggestions welcome at @MM_WSJ.

Casting no shadow in the City?

New shadow City minister and *Money Marketing* interview dodger Richard Burgon was caught out on TV this week when he was asked the unexpected question of whether he'd actually been to the City.

Burgon floundered when asked whether he had met any City firms since taking on his role.

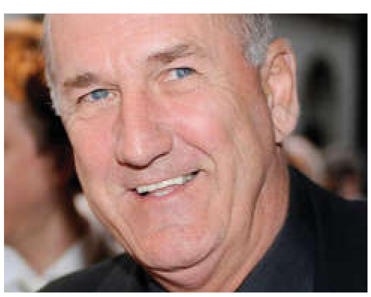
The MP - a trade union lawyer before he entered Parliament in May - could only say he had met "representatives of business" at the Labour party conference in Brighton.

Pressed on whether he had visited firms inside the square mile, Burgon answered: "I've got a very busy diary, as you would imagine."

WSJ welcomes this bold new approach from shadow ministers and looks forward to such revelations as that shadow home secretary Andy Burnham doesn't actually have a home, shadow health minister Heidi Alexander is ill, and shadow work and pensions secretary Owen Smith has quit his defined benefit pension.

Separated at birth

Russ Abbott



Nick Bamford

Have you a suggestion for "Separated at birth"? Please send it to WSJ via Twitter @MM_WSJ.

OUT OF CONTEXT

"I didn't mean to diss your suit, I'm just not used to seeing you looking smart"

Hargreaves Lansdown pensions expert Tom McPhail reveals his shock at seeing an MM hack not dressed in shorts and flip-flops.

"It's a bit like the final scene in Fatal Attraction"

Page Russell's Tim Page on the similarities between FSCS levies and horror films.

"There's no situation so bad that a government intervention can't make worse"

IoD pensions policy adviser Malcolm Small doesn't rate the government's eye for interference.

"Er, I think we're saying all the words for now"

A PR at the newly rebranded Pensions and Lifetime Savings Association rebuffs a suggestion to refer to the organisation as 'Plusser'.

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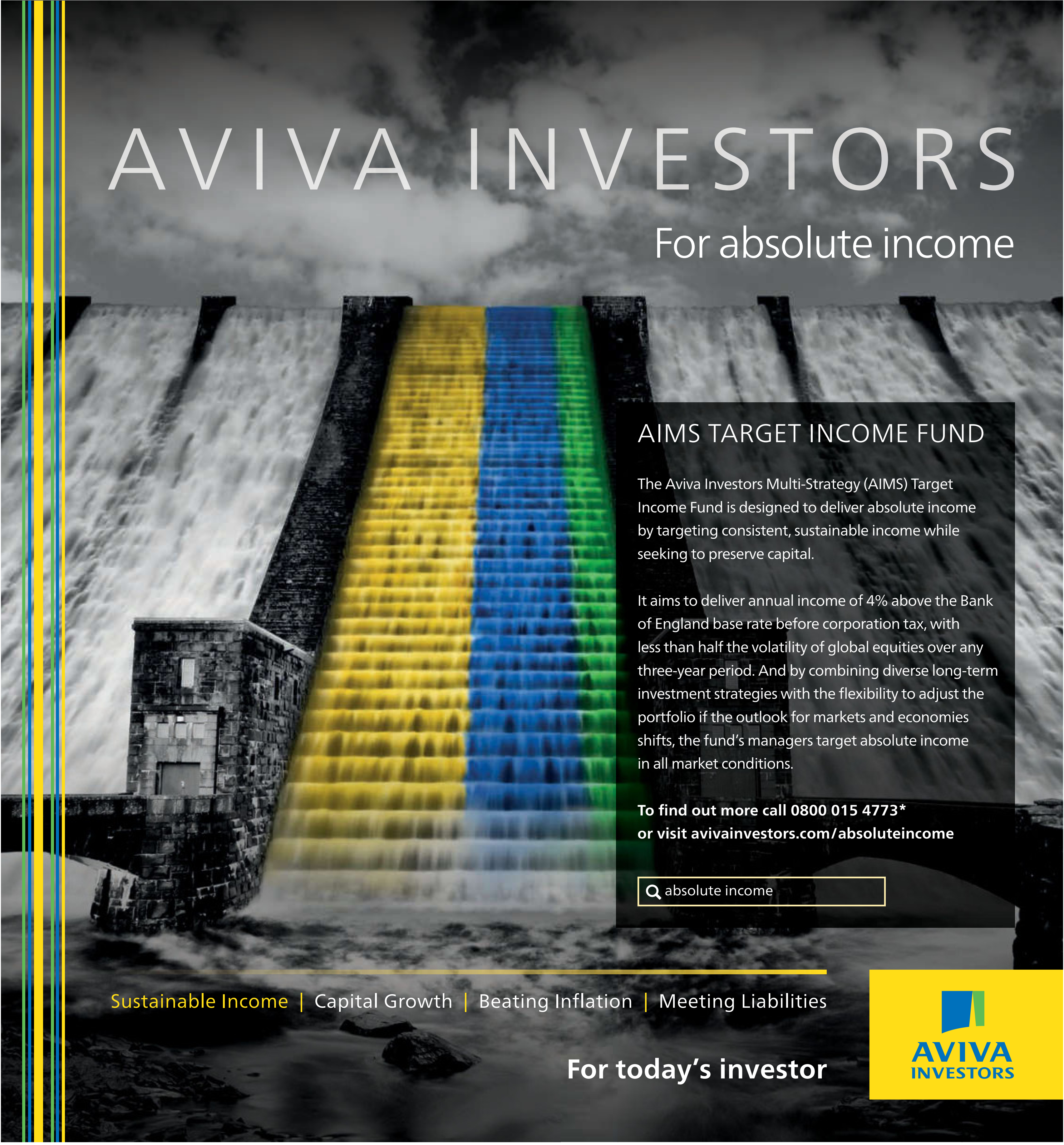
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